

FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

FRIDAY MARCH 19 1999



FT Weekend tomorrow
Terror of time – so much to do, but so few hours in the day



Maastricht Fair
Art and antiques buyers in exuberant mood
Page 17



Israel
Is the rule of law under threat?
Page 6

FT Director
New rush to enshrine governance codes
Separate section

Bill Gates on Business

Why bad news is good to hear
Second in a series of exclusive extracts from his new book
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WORLD NEWS

Pressure mounts on Serbs as Albanians sign Kosovo deal

Pressure mounted on the Serbs to back a Kosovo peace deal after the Albanian delegation at talks in Paris formally signed the peace agreement. Page 22

UN warns over water shortages
Nearly a third of the world's population will face severe water shortages in 25 years' time, increasing the danger of war over water supplies, the United Nations said. Page 22

Yeltsin orders Skuratov inquiry
President Boris Yeltsin ordered Russia's security council to investigate any "misdeeds" committed by top law official Yuri Skuratov. Europe, Page 3

No arms progress in Uster talks
Berthel Ahern, prime minister of the Republic of Ireland, said there was no breakthrough in sight in the dispute about paramilitary weapons in spite of talks in Washington between republicans and unionists. UK, Page 6

IOC approves radical reforms
The International Olympic Committee approved radical reforms to the bidding process for the 2008 winter Olympic Games in the wake of the Salt Lake City corruption scandal. International, Page 6

China attacks 'cold war' critics
China accused critics of Sino-US ties of having a "cold war mentality" in a sign of Beijing's deepening concern over a souring of relations. US, Page 5

Romania to support its currency
Romania's central bank is to intervene to support the national currency after the lei fell more than 6 per cent against the US dollar in a day. Europe, Page 3

China offers Taiwan contacts
China offered to send its top Taiwan affairs negotiator to the island this autumn in a proposal that sets a possible timetable for contacts between Beijing and Taipei. Asia-Pacific, Page 4

Mandela praises help by Sweden
Nelson Mandela, South Africa's president, hailed Sweden's role in galvanising the international anti-apartheid campaign. Europe, Page 3

Cambodia rejects trial move
Cambodia reiterated its opposition to an international tribunal for former Khmer Rouge guerrilla group leaders in spite of a call for one by UN Secretary-General Kofi Annan. Asia-Pacific, Page 4

BUSINESS NEWS

Westland and Agusta to merge helicopter ventures

GKN Westland of the UK and Agusta of Italy have agreed to merge their helicopter operations, marking further consolidation of Europe's aerospace industry. GKN, the engineering group, and Finmeccanica, the state-controlled company, will form a joint venture that will have 20 per cent of the world market. Page 23; Moment of truth yet to arrive, Page 29; Raytheon seeks links, Page 25

KPMG, the world's fourth-largest accountancy firm, has been warned by the US Securities and Exchange Commission that rapid implementation of plans for an initial public offering of part of its consultancy business could cost it the right to audit US public companies. Page 23

Nippon Steel, Japan's largest steel maker warned investors that pre-tax profits would collapse 83 per cent this year because losses from unprofitable subsidiaries would be larger than expected. Asia-Pacific companies, Page 24

Olivetti, the Italian telecommunications group, could face a bid for €1.6bn (£1,096bn, \$1.78bn) if its hostile €52.6bn takeover offer for Telecom Italia succeeds. European companies, Page 26; Lex, Page 22

Bertelsmann, the privately owned German media company, is to lobby the US government to relax restrictions on foreign companies controlling US television networks as part of its efforts to expand operations in North America. European companies, Page 26

Axa, France's biggest insurer, reported a 26.8 per cent rise in 1998 net profits to €1.53bn (FFr10bn, \$1.88bn) and predicted 15 per cent growth in profits for 1999. European companies, Page 26; Lex, Page 22

Crédit Lyonnais, the French bank whose privatisation was launched this week, is negotiating a potential alliance with Mellon Bank of the US. European companies, Page 26

Euro Prices

A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 30

Italian move could ease EU deal

D'Alema gesture may pave way for accord at Berlin summit

By James Birt in Rome, Quentin Peel in London and Michael Smith in Brussels

Gerhard the German chancellor has won a vital concession from Italy in the Agenda 2000 negotiations on overhauling the finances of the European Union that could open the way to a deal at next week's summit in Berlin.

At the same time he has told his EU counterparts that he will not trigger a confrontation with the UK over its budget rebate at the summit, thus heading off one potential source of a potential settlement started to emerge yesterday, as the crisis caused by the mass resignation of the European Commission on Monday seemed to galvanise the EU governments into seeking a deal.

The Italian concession – which still depends on reaching agreement on all other elements in the complex package of farm reforms, regional funding, and budget finance – would increase Rome's net contributions to the Brussels budget by about £1,000bn (£516.5m, \$560.5m) between 2000 and 2006.

This would be achieved by changing the proportion derived from value added tax. That would in turn reduce Germany's net contribution by a small amount, which is a vital German interest in the negotiations.

Mr Massimo D'Alema, the Italian prime minister, made the gesture at talks with Mr Schröder on Wednesday evening, as the chan-

cellor continued a whistle-stop tour of European capitals.

It is seen in Rome as directly linked to the Italian premier's promotion of Romano Prodi, his predecessor, as the next president of the European Commission. The German chancellor also made clear that he was not prepared to force a confrontation with Britain over the UK budget rebate for fear of alienating Tony Blair, the prime minister.

Schröder is not willing to tackle the issue of the UK rebate next week, said a senior Italian government official. "He does not rule out coming back to the British rebate at a later date. But he made the political argument that a confrontation at this moment

would make it more difficult for Tony Blair to bring the UK into the euro."

In spite of Mr Schröder's apparent concession, the UK is still likely to face strong pressure in Berlin on its contributions to the future cost of EU enlargement. "We don't now ask for the rebate to be withdrawn, but we think that at least we must exclude enlargement expenditure from any rebate," a French official said yesterday.

He said the other member states were unanimous that Britain must contribute its full share to the extra costs likely once the first east European states join the EU, rather than get the same rebate it receives on

the rest of the budget.

Mr Blair will come under huge pressure to make that concession in Berlin, as France will have to agree to drastic cuts in farm spending, Italy to increase its contributions, and Spain to receiving less money in regional subsidies, if a deal is to be done on Agenda 2000. Germany will also have to accept a much smaller reduction in its DM22bn (£11.2bn, \$13.3bn) net contributions to the budget.

However all of those moves now seem more likely in the wake of the crisis in the Commission, because the pressure is far greater for the EU governments to show they can still take vital decisions. Indeed, Italy believes it may also be possible to agree in Berlin on Mr Prodi as the new Commission president.

Deutsche sets aside €3bn for takeovers

Bank's acquisition war chest is much larger than expected

By Uta Harnischfeger in Frankfurt

Deutsche Bank yesterday announced a much larger-than-expected DM6bn (€3bn) capital increase to help fund its acquisition of Bankers Trust of US, but also to stock its war chest for acquisitions in Europe's rapidly consolidating banking industry.

The company had been expected to raise DM4bn and its shares lost 2 per cent, to close at €51.00, as the market reacted coolly to the extra DM2bn and to 1998 results, which fell short of expectations. Operating profits stagnated at DM4.38bn, against DM4.36bn.

Deutsche said it wanted to equip itself for the "continuing consolidation in Europe," but chairman Rolf Breuer said it would not interfere in the big takeover battle taking place in France, where Banque Nationale de Paris has launched a hostile bid for Société Générale and Paribas, which have agreed a friendly merger.

There had been speculation that Deutsche might step in as a white knight for Société Générale or Paribas, but Mr Breuer said it would wait until the French consolidation was over.

He added that Banque Nationale de Paris had not asked it to take part in its bid. Deutsche intends to re-focus on Europe once the Bankers Trust purchase

is completed. "We are the only truly European bank and while it is not our aim to cover every bit of Europe, we want to focus on certain geographical regions and on certain customers."

The bank announced this month that it would build a branch and telephone banking network for wealthy customers in France. It has retail banking activities in Italy, Spain and Belgium and it could use its extra DM2bn to expand its business in one of these countries.

Under the scheme announced yesterday, the bank will issue up to DM4bn of equity in a rights offering and will place a further DM2bn through a worldwide placement, excluding subscription rights, to take place in April. Deutsche Bank has already raised 60 per cent of the \$10.1bn purchase price of Bankers Trust on the capital market.

Some analysts complained that the extra DM2bn was too little to make a serious European purchase but too much to raise without any clear purpose at a time when the bank's shares have been under pressure.

They suggested DM2bn would be sufficient to buy businesses in Europe that the bid protagonists there might be forced to discard. Mr Breuer said he expected the US authorities to approve the merger with Bankers Trust in the second quarter. He added that US



Hands on: Deutsche Bank chairman Rolf Breuer gestures during his Frankfurt press conference yesterday

approvals did not hinge on the setting up of a compensation fund for second world war Holocaust victims, which was proving legally difficult.

The bank reported 1998 net income of DM3.38bn, up from DM 1.01bn. That was due to a DM 3.2bn special dividend from

Daimler-Benz. Analysts had hoped for net profits closer to DM4bn. Mr Breuer said earnings in the first two months of 1999 had been "excellent." He added: "Our operating profit was more than one billion marks, which was well above the high, year earlier results." It also emerged

yesterday that Deutsche plans to sell the Australasian asset management business of Bankers Trust once its takeover is complete.

LEX, Page 22; Plans to sell Bankers Trust arm, Page 26

Consortium plans global tag system

By Andrew Edgecliffe-Johnson in New York

Three giant consumer products manufacturers, frustrated with losses from shoplifting and counterfeiting, have formed an alliance to develop a global standard for security tags on packaging.

Procter & Gamble, Johnson and Johnson and Eastman Kodak hope to begin trials of a prototype standardised tag early next year. Once a workable system has been found the consortium will hand over the licensing to a not-for-profit organisation.

The tags will be built into products' packaging rather than attached manually; they will carry basic product information, and should be adaptable to new technologies such as tills that scan the entire contents of a supermarket cart in an instant.

Currently the radio frequency, acoustic-magnetic or electro-magnetic security systems supplied by manufacturers including Checkpoint and Sensormatic are incompatible with each other.

Jerome Johnson, Kodak's representative on the consortium, said: "At present manufacturers can either invest in one type of tag, knowing that it will be invisible to some of their retailers' detection systems, or they can

purchase multiple tags, forcing them to maintain multiple inventories of identical products."

Steve David, head of customer business development for Procter & Gamble, added: "Retailers' execution can ruin the look of our product."

Security tags get in the way, and on pharmaceutical packaging, they can cause health risks if the tag obscures dosage information. The manufacturers also hope the tags will help reduce packaging costs.

The consortium will spend the next three months listening to other manufacturers and trade associations and seeking technology partners. It has already signed up NovaVision, a US group specialising in hologram technology.

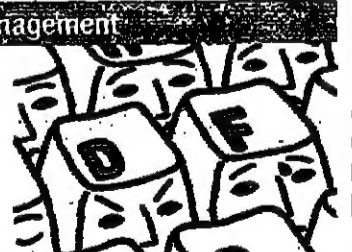
Pat Rizzotto, Johnson & Johnson's vice president for business development, said the technology would be available to "all comers" once it had been developed.

The new security tags will be introduced on a voluntary basis, with manufacturers paying a licensing fee of between \$500 to \$10,000 for the use of barcodes.

The consortium is looking at the Uniform Code Council, which oversees barcoding, as a possible model for the future management of its tagging operation.

Mastering Information Management

The FT's 12-part series on the I in IT continues on Monday.
Part Eight: the human factor



WORLD MARKETS

STOCK MARKET INDICES	
New York: S&P 500	2,906.88
NASDAQ Composite	2,444.54
Europe and Far East	
UK: FTSE 100	4,152.57
FTSE 100	4,152.57
FTSE 100	4,152.57
FTSE 100	4,152.57
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Euro-zone target price €2.15. Prices in local currency as shown	
Belgium	DM1,300
France	FFr1,400
Germany	DM1,300
Italy	Lira 1,300
Spain	Peseta 1,300
UK	£1,300
US	\$1,300
Japan	¥1,300
South Africa	Rand 1,300
Sweden	Krona 1,300
Switzerland	Franc 1,300
Netherlands	Guilder 1,300
Australia	Dollar 1,300
New Zealand	Dollar 1,300
South Korea	Won 1,300
Hong Kong	Dollar 1,300

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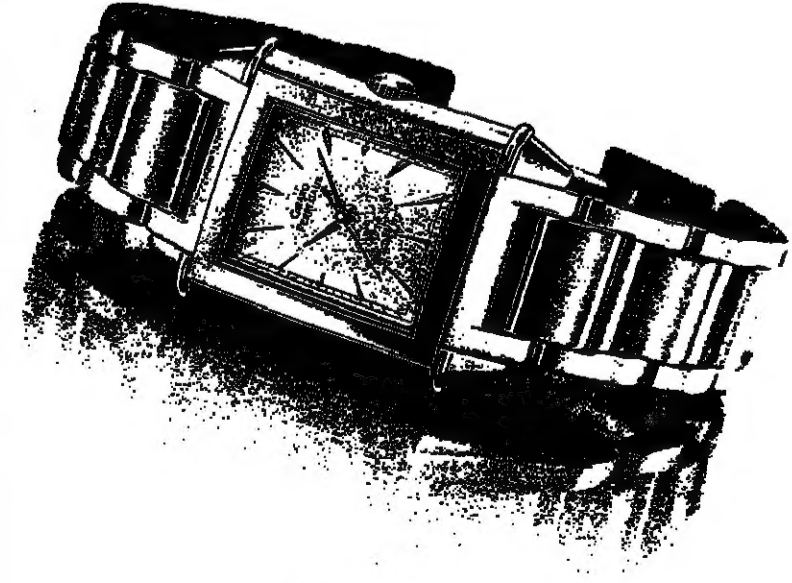
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WORLD NEWS

EUROPE

EUROPEAN COMMISSION PLAN TO LIBERALISE MARKET PUT ON HOLD □ OTHER INITIATIVES ALSO FROZEN

Pension fund shake-up thrown into disarray

By Jane Martinson and Emma Tucker in Brussels

Plans for a directive to liberalise the European pension fund market have been thrown into disarray by this week's shock resignation of the European Commission, one of a series of important legislative initiatives to have been temporarily frozen.

Mario Monti, the single market commissioner who stepped down along with his colleagues on Monday and who has championed the pension fund proposals, admitted yesterday that a draft communication on pension funds would be delayed because of the Commission's decision to act on only "current and urgent business".

Addressing a pension fund conference organised by the Financial Times in Brussels, Mr Monti said: "The need to take action is urgent. Action

is long, long overdue in this area, which is one where national sensitivities, whether justified or unjustified, and national concerns over real or apparent sovereignty have had an enormous role in making progress slow."

The pension fund proposals, due to be published next Wednesday, were eagerly awaited by financial service providers and companies throughout Europe.

In a speech he said "nothing more than perhaps advice to my successor", Mr Monti said the proposals would help introduce the prudential supervision of pension funds, the co-ordination of tax arrangements and improved labour mobility.

Mr Monti's pension plans are among a raft of initiatives put on the back burner by the Commission's mass resignation.

Over the next few weeks the EU executive was due to produce an amended version of its contested copyright directive taking on board parliamentary amendments. The draft law was considered vital to the successful development of internet services in the single market.

Another victim of the caretaker Commission's decision to pause activity to the legally necessary minimum was a competition white paper. The final plank of a major overhaul of competition policy, the document had been laboured over by officials for two years.

However, the day to day business of competition policy will not be affected. Officials in the competition directorate will continue to work on merger notifications (which must be dealt with within legally binding deadlines), joint ventures, state

aid investigations, complaints about restrictive practices and abuses of a dominant position.

A communication establishing guidelines on the legality of state guarantees under subsidy rules is still expected to see the light of day, and there will be no respite for German publishers from an inquiry into Germany's fixed book price system.

As 1999 was the last year of the incumbent Commission's reign most commissioners had rushed to get their last legislative proposals adopted. Looming European parliamentary elections added to the pressure.

However, numerous single market initiatives will be shelved, many of which had been demanded by the parliament.

● The manager of one of Europe's largest pension

On the Shelf

- White paper on reform of competition policy
- Communication on a new directive to liberalise EU pension fund market
- Proposal to restrict working time for airline pilots
- Amended proposal on copyright in the information society
- Proposal for VAT on postal services
- Minor legislation for liberalising European rail
- Transparency in the "secondary market" for airline slots
- Amended proposal for "visiting motorists" legislation, (fast and fair treatment for EU citizens involved in car accidents abroad)
- Three directives on the rights of residence of non-active citizens (pensioners, students etc)
- Directive to limit air pollution damaging the ozone layer
- Communication on priorities for the single market
- Communication on cross border payments and bank charges
- Amendments to public procurement directive
- Money laundering directive
- Commission's interpretative communication on the general good in the insurance sector
- If no new Commission by June
- Proposal for a directive on patenting computer programmes
- Proposal for a regulation to establish an EU patent

funds yesterday called on the industry to keep up pressure on the European Commission to allow funds to be run on a more pan-European basis.

Bruce Garner, head of pensions at BP/Amoco, told the FT conference in Brussels that investment restrictions and tax discrimination still created barriers to running cost-effective pan-European pension schemes. Consultants believe multinationals such as BP/Amoco, could save millions of pounds by merging their separately run European funds.

Mr Garner offered support to those prepared to launch a test case at the European Court of Justice designed to remove tax barriers. An association launched last year to prepare this case foundered through disagreement over tactics, however.

Mr Garner offered support to those prepared to launch a test case at the European Court of Justice designed to remove tax barriers. An association launched last year to prepare this case foundered through disagreement over tactics, however.

Prodi leading race to head Commission

By James Giltz in Rome, Gordon Crabb in Amsterdam and Peter Wise in Lisbon

Romano Prodi, the former Italian prime minister, was emerging yesterday as the clear front runner to become next president of the European Commission.

Italian government officials believe it may even be possible to reach agreement on his nomination at next week's European Union summit in Berlin, in order to defuse the crisis caused by the resignation of the entire Commission on Monday.

Javier Solana, the Spanish secretary-general of Nato, is regarded as a credible alternative, but as a Socialist he is unlikely to be promoted with the same enthusiasm by Spain's conservative government.

The fact that he would be moving from Nato to the Commission is a concern to Paris, which is loath to see someone move directly from the military Atlantic alliance to the EU.

The other potential contenders are Wim Kok, Dutch prime minister, and Antonio Guterres, Portuguese premier, but both are believed to be ruled out by their domestic political situations.

Mr Kok won re-election last week, but a year ago. Although he would be the favourite candidate of Britain's Tony Blair, he has rejected the suggestion.

Mr Guterres is highly regarded by his fellow EU leaders, but he has ruled himself out of the running because his Socialist party considers his leadership vital to winning the next election.

AGENDA 2000: GERMANY FEARS THAT DISCUSSIONS ON NEW COMMISSION MAY DERAIL DEAL

Bonn pushes for EU summit to stay focused on reforms

By Ralph Atkins in Bonn, Michael Smith in Brussels and David White in Madrid

Germany was yesterday pushing for next week's European Union summit in Berlin to stay focused on the "Agenda 2000" reforms of EU finances, fearing that discussion of a new European Commission could derail progress on a deal.

Günther Verheugen, European minister, said he expected EU member states would agree in Berlin only on a procedure for selecting a new Commission, which would be done later. This would leave the rest of the Berlin summit free for negotiations on Agenda 2000.

The procedure resolved in Berlin, however, would include a decision on whether to have an

"interim" Commission until the end of the year, or a team that would remain in place for the following five years.

Joseph Fischer, foreign minister, stressed the importance of securing agreement on Agenda 2000 and indicated he would prefer to appoint a new Commission team that would serve a full term, saying he saw "little sense" in having a Commission that lasted only until the end of the year.

Bonn believes a separate meeting of government heads - probably not a formal summit - could follow soon after the Berlin summit. At that point, a successor to Jacques Santer, the outgoing Commission president, could be agreed.

In a parliamentary debate in Bonn, Mr Fischer indicated

Germany would push for the selection of the new Commission following procedures set out in the 1997 Amsterdam EU treaty - even though it is not yet in force.

The Amsterdam treaty requires separate approval by the European parliament of the president and the rest of the Commission team.

Diplomats in Brussels believe the Commission crisis has in fact increased the likelihood of a deal on Agenda 2000 next week. "We needed a crisis to get things moving," said one. "We cannot afford another failure," another said.

Some governments - including Spain's, until recently considered the most obstinate state in the reform negotiations - fear that reform plans drawn up by

the Commission could be unravelled if agreement is delayed.

Abel Matutes, Spanish foreign minister, said it would be "irresponsible" for the EU to leave budget reform until a new Commission is in place.

In spite of the growing optimism there are still big issues to be resolved, including Britain's budgetary rebate, which reduces its contributions to the EU budget, and the push by Germany, Austria, Sweden and the Netherlands to reduce their contributions.

There could also be fierce debate about a farm deal agreed by agriculture ministers last week. Heads of state want €7bn (\$7.6bn) more in savings over the 2000-2006 period to force a spending freeze.

Finnish rainbow coalition fails to add colour to campaign

There have been few arguments and little controversy in the run-up to Sunday's general election, writes Tim Burt

Outside the prime minister's office in Helsinki, the security guards are watching television. They chuckle occasionally at the imported British show, *Keeping Up Appearances*, a comedy of English middle-class snobbery and manners.

Paavo Lipponen ignores the programme as he passes. The Finnish prime minister, his officials explain, has appearances of his own to maintain - defending his government's record ahead of a general election on Sunday.

Mr Lipponen believes his "rainbow coalition" - the five-party administration led by the Social Democrats - deserves a repeat performance after presiding over four years of solid growth and leading the country into European economic and monetary union.

"We will be telling people

that we have assembled a coalition that has brought stability with growth and employment," says the prime minister. "This country needs the SDP."

The dilemma for Finland's politicians is that only one outcome is certain from next Sunday - another multi-party coalition government.

Given that every party wants a seat at the cabinet table, none is willing to lambaste opponents or come out with controversial policy statements. Mr Lipponen's left-of-centre SDP has, for example, worked happily in coalition with the Conservative party led by Sauli Niinistö, the current finance minister. In the past, it has also co-operated with the Centre party, the country's largest opposition group.

"As we might have slower growth because of international economic developments, it makes broad co-operation more important," says Mr Lipponen. Although the parties are distinguished more by what unites than divides them, issues have begun to emerge that make some coalition formulas less likely than others.

The SDP, partly under pressure from its Leftist Alliance partners, has proposed to increase taxation on capital and dividends. It has also vowed to defend current social security benefits.

Esko Aho, the Centre party leader and former prime minister, is strongly opposed to dividend taxation and wants to see income tax cut by 1 per cent a year during the next parliament. "It is essential to push forward reforms of labour market legislation and fiscal policy," he says.

Mr Aho's right-of-centre group also hopes to enforce new labour market rules on industrial action, an issue in the spotlight following a

damaging five-week strike by Finnish air traffic controllers.

The strike, severely disrupting air services to and from Finland, also raised doubts about the government's policy of urging wage moderation. The controllers demanded a 26 per cent pay increase, and settled for a higher-than-average 13 per cent rise.

The Centre party has accused the Social Democrats of failing to act, arguing it has been constrained by old union allegiances. Even Mr Niinistö concedes that changes may be necessary to prevent "special groups" from causing such disruption in the future. And like his Centre party counterpart, he too opposes dividend taxation.

But such rows - including differences over how to reduce unemployment or distribute regional aid - are largely cosmetic. All the main party leaders, who will each be contesting parliamentary seats in Helsinki for the first time, are ready to compromise in exchange for power.

None of them, moreover, differ markedly on the key planks of Finland's economic success: sound management of public finances, the pursuit of low inflation and ardent enthusiasm for Euro. Given that the largest parties are neck-and-neck in the opinion polls, they all want to lay claim to championing a stable economy and Finland's close links to Brussels.

Certainly, the economic indicators make good reading. Gross domestic product rose by 4.9 per cent last year, the central government deficit shrank by Fm15bn (€2.52bn, \$2.76bn) and household disposable income climbed 5.6 per cent.

Finland also qualified easily under the Maastricht criteria to become a founder

Finland: coalition territory

1995 election result: % share of vote

Leftist Alliance 11.2

Conservatives 17.8

Centre party 18.8

Social Democrats 29.3

Swedish People's party 5.4

Greens 6.5

Christian party 3.6

Young Finns 2.6

Other 5.1

March 1999 opinion poll: % share of vote

Leftist Alliance 10.0

Conservatives 23.2

Centre party 22.8

Social Democrats 21.5

Swedish People's party 5.5

Greens 7.1

Christian party 3.7

Young Finns 1.2

Other 4.8

Source: Finnish Gallup

Note: "Rainbow coalition" consists of SDP, Conservatives, Leftist Alliance, Swedish People's party and Greens

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Note: "Rainbow coalition" consists of SDP, Conservatives, Leftist Alliance, Swedish People's party and Greens

Euro-zone rates left unchanged at 3%

By Wolfgang Münchau in Frankfurt

The European Central Bank last night left its short-term benchmark rate unchanged at 3.0 per cent.

The decision was anticipated in the financial markets, after the ECB indicated in its March monthly bulletin that the present level of interest rates was appropriate.

The ECB said in its March bulletin that there was no significant risk of annual price increases exceeding the ECB's ceiling of 2 per cent.

Yesterday's decision is bound to trigger intense speculation ahead of the next two ECB council meetings, scheduled for April 8 and April 22.

The first of these two meetings will be followed by a scheduled news conference.

Joachim Fels, ECB watcher at Morgan Stanley in London, said the euro-zone economy was at some risk of deflation, and predicted a rate cut before the end of April.

Some observers had argued the ECB would find it easier to cut interest rates after last week's sudden resignation of Oskar Lafontaine as Germany's finance minister.

Mr Lafontaine had repeatedly clashed with the ECB over interest rates.

But other argue that a decision to cut interest rates only a week after Mr Lafontaine's resignation might have been construed as a tacit admission by the ECB that politicians influence monetary policy decision, according to some observers.

NEWS DIGEST

NORWEGIAN OIL INDUSTRY

Statoil calls for tax breaks to boost sector

Statoil, Norway's state-owned oil company, has called for tax breaks and a lesser state role in the Norwegian oil industry as a way to boost the sagging sector. The call comes as the government considers possible oil tax breaks and prepares deeper production cuts next month in order to bolster the industry.

Last month, all three Norwegian oil companies reported disappointing 1998 results, with Statoil posting its worst in a decade. Harald Norvik, Statoil chief executive, proposed on Wednesday a number of concrete tax changes, including replacing the carbon dioxide tax with a national quota system, removing a production tax representing 8 to 16 per cent of gross production on all oil fields approved for development before January 1986, and drastically lowering the 50 per cent special tax on the petroleum industry.

He also called for the state to limit its direct financial ownership of licences on the Norwegian continental shelf to make room for other producers to share in the profit. The Norwegian state directly owns most production on the shelf, and 100 per cent of Statoil. Valeria Skold, Oslo

GERMAN DEFENCE

Schäping threat to quit denied

A government spokesman yesterday denied news reports that Rudolf Schäping, German defence minister, had threatened to resign over proposed cuts in the defence budget.

The Defence Ministry spokesman said Mr Schäping had strongly resisted efforts to cut the budget at a parliamentary committee meeting on Thursday. But he rejected as "speculation and rumours" reports in German media that the minister had threatened to quit.

Mr Schäping reluctantly agreed to become defence minister in October after Gerhard Schröder, the Chancellor, promised there would be no such cuts. Reuters, Bonn

HOLOCAUST BANK ACCOUNTS

Search nearing its end

The search for unclaimed Swiss bank accounts dating back to the Holocaust era, headed by Paul Volcker, the former US Federal Reserve chairman, should be completed by the end of this month. However, Swiss bank officials do not believe there is much hope of finding much more than SF70m (\$47.5m) already discovered, of which less than 20 per cent is estimated to be related to Holocaust victims.

The Swiss Bankers Association (SBA) said yesterday that 9,700 claims have been made on 5,600 non-Swiss accounts. Some 9,500 of these have been passed to the banks concerned. A further 7,500 unrelated claims have been received. At the end of last year only SF6m of the SF70m had been returned and the SBA says many more claims have been made than originally expected. The SBA, at a seminar for foreign journalists in Bern, repeated industry estimates that the cost of the reviewing the second world war role of the Swiss banks was as much as SF1bn. William Hall, Zurich

ESTONIAN DEFENCE

Plan to increase budget

The three party centre-right alliance which is likely to form Estonia's new government plans to increase the Baltic country's defence spending to meet Nato standards. According to a coalition agreement signed earlier this week by the three parties - Fatherland, Reform and Moderates - the government plans to raise defence spending from the current 1.33 per cent of gross domestic product to 2.0 per cent.

The boost will help bring Estonia's military in line with Nato standards by increasing the number of professional soldiers. A military development plan is also needed, the document said. The new government, which is likely to be led by Mart Laar, a former prime minister who launched radical market reforms in 1992, hopes to spur economic growth by eliminating corporate income tax on all reinvested profits, as well as on job-creating investments. The three parties have reiterated their commitment to the existing currency board, which pegs the kroon to the D-Mark, but said the kroon would eventually be re-pegged to the euro. Mäte Vipotnik

FRENCH MERGER

Notification for approval

The European Commission said the proposed merger of France's Aerospatiale and Lagardère's Matra had been notified for regulatory approval in the European Union.

The filing was made on March 11, triggering a routine one-month probe. The Commission may, however, extend the deadline by a further two weeks if it has concerns about reduced competition and the companies are ready to address them.

Notification of the all-French telecoms-to-missiles merger came before any notification on the proposed acquisition by British Aerospace of the Marconi unit of General Electric of Britain.

A Commission spokesman declined to say whether the French government had made use of provisions allowing EU national capitals to ask companies involved in mostly defence mergers not to notify information that could harm their national interests.

The British government has made clear it would use those provisions, outlined in Article 223 of the EU treaty, in relation to the BAe/Marconi deal. Such a move would limit the Commission's assessment of the merger to the commercial, not military, sector in line with previous practice. It could also make the review more difficult in the case of so-called dual-use goods, or those with both military and civilian applications. Reuters, Brussels

GEORGIAN COMPLAINT

Russian bases criticised

A senior parliamentary official said yesterday the Georgian legislature would press President Eduard Shevardnadze to make Russia start closing its military bases in the former Soviet republic. "We have to start talks about a pull-out of two Russian bases," said Revaz Adamia, the head of parliament's military and security committee.

Mr Adamia blamed Russia for using the two bases - one near the capital Tbilisi and another in the breakaway region of Abkhazia - to destabilise the political situation in Georgia and help separatists. Russia has two other military bases in Georgia. He also accused Russian troops in the country of peddling weapons and said Moscow had failed to live up to an agreement to help Georgia restore control over Abkhazia, a condition of keeping the bases on its soil. Russia had refused to pay Georgia rent for the bases or even pay for electricity or water, he added. "It is time now to become harder with Russia. Reuters, Tbilisi

Turks set for
Mandela praise
help by Sweden

Bratislava
moves on
privatisation

Turks set for drop in tourism

By Leyla Boulton in Ankara

Turkey's tourist industry is bracing itself for a disappointing year following threats made to potential visitors by the banned Kurdish PKK guerrilla group. The country earned \$8bn from tourism last year. Before the capture of Abdullah Ocalan, the PKK leader, set off a wave of bombings in Istanbul to press for his release, Turkish travel agents had been forecasting a 15 per cent increase in the number of German visitors, who are their most important source of business.

But yesterday Oger Holding, the country's biggest tour operator for German tourists, said 70 per cent of its bookings for March and April had been cancelled because of the crisis.

Poll delay 'would lead to chaos'

Turkey's powerful armed forces yesterday warned parliamentarians trying to delay elections set for April 18 that to do so would lead to "serious chaos in Turkey".

Huseyin Kivirkoglu, chief of the general staff, gave the warning in a newspaper interview published yesterday. He said abolishing legislation that had banned certain Islamist leaders from the elections

would bring "bigger chaos".

An extraordinary session of parliament convened by Islamists who want to lift the legislation yesterday voted 240-211 to set a no-confidence vote in Bülent Ecevit, the caretaker prime minister, for Monday. They need 276 votes to succeed.

The stock market closed 2.51 per cent up yesterday on hopes the intervention would forestall a crisis.

UK citizens have been warned by the Foreign Office that they could become "caught up in any trouble". British tourists formed the third largest contingent of foreign tourists to Turkey last year after nationals from the Commonwealth of Independent States.

But the UK Foreign Office stopped short of advising people against visiting Turkey. It said that in spite of a "substantial number of terrorist incidents" in Istanbul, there had been no recent attacks in coastal areas.

With its executives due to

meet Turkish officials at the weekend to draw up a crisis strategy, the industry was putting a brave face on the problems yesterday.

"This does not mean people will not come to Turkey; every year there's a different crisis in the country," said Bircu Smolinska, a tour guide at the historic site of Cappadocia.

Talha Camas, president of the Turkish travel agents' association, reported that in spite of Easter cancellations, there had been no changes to longer-term bookings.

Turkey's foreign ministry, meanwhile, pointed out that the PKK has warned tourists to stay away from Turkey every year.

It added that the authorities would take "all the required steps to make Turkey a safe and pleasant place to visit".



Huseyin Kivirkoglu warned of chaos if elections were delayed AP

LEU FALLS BY MORE THAN 6% AGAINST \$

Romania will intervene to aid currency

By Joe Cook in Bucharest

Romania's central bank yesterday said it would intervene to support the national currency after the leu fell by more than 6 per cent against the US dollar in one day, raising fears of runaway inflation.

The leu has lost more than 36 per cent against the dollar since January and Bucharest shops selling imported goods yesterday closed in order to reprice their stock. Many Romanians queued at banks and exchange houses to buy dollars and D-Marks.

The news follows a recent run by depositors on state-owned Bancorex, the country's biggest and most troubled bank, and comes as the government is in talks with the World Bank and the International Monetary Fund over new loan agreements.

Romania risks defaulting on foreign debt service payments of \$2.3bn this year. Official reserves, excluding gold, stand at \$1.5bn.

Last week, the central bank said it was considering using the country's \$927m of gold reserves as collateral to raise fresh loans.

The leu fell sharply on Wednesday after the central bank declined to intervene on the money market as \$80m of domestic bonds were redeemed.

"The central bank cannot afford to spend a single

dollar on supporting the currency because it has to service the foreign debt," said a London-based economist with a US investment bank, warning that to do so would jeopardise agreement with the IMF.

He said Romania was "in a very dramatic situation". Traian Basescu, the finance minister, said after a cabinet meeting that the government would unveil a plan next week to support the leu.

He added that he had "no moral right" to discuss details as this could affect the market at a "critical" time.

The London-based economist said Romania could follow the recent example of crisis-hit Ecuador and declare a "banking holiday" in order to "calm the market and buy time to avoid panic".

Romania's economic turmoil has heightened political tensions inside the country's four-way coalition. Two parties, the Peasants and the Liberals, are known to be discussing exchanging the education and finance portfolios, the latter held by the Liberals.

The Peasants, which is the biggest party of the coalition, has internal divisions that may yet see a faction led by a former prime minister, Victor Ciorba, break away.

Mandela praises help by Sweden

By Nicholas George and Tim Burt in Stockholm

Nelson Mandela, South Africa's president, yesterday hailed Sweden as the country that, arguably more than any other, galvanised the international anti-apartheid campaign.

At the end of a five-nation tour of northern Europe, Mr Mandela told the Swedish parliament: "It is fitting that what is probably our last official visit to Europe before retirement should include Sweden, which made a contribution to our liberation out of all proportion to your size".

During the apartheid years in South Africa, Sweden became the largest single financial supporter of the African National Congress. The Swedish government helped pay for the setting up of ANC offices, farm training centres and schools in exile, as well as the legal defence costs of anti-apartheid activists inside South Africa itself.

"Today, South Africa has powerful friends," said Mr Mandela. "There is a danger that we may forget those small countries who, when we were shunned by almost the entire world, stood with us and in time mobilised the international community".

Mr Mandela recalled that the last time he addressed

the Swedish parliament nine years ago the first assembly to issue an invitation to the ANC leader "it was as a freedom fighter, only weeks out of jail, and still denied citizenship in the land of his birth".

Sweden was the first place he visited outside South Africa after his release, when he met Oliver Tambo, the then ANC president, who was recovering from a stroke in a Stockholm hospital.

Mr Mandela's tour, following stopovers in Finland, Denmark, Norway and the Netherlands, is expected to be one of his last international trips before South Africa's general elections and his retirement as president later this year.

His unreserved praise for Sweden's support of the ANC was interpreted by local politicians as a vote of confidence in Swedish foreign policy, an area where the country has rarely commanded the international spotlight.

Pierre Schori, deputy foreign minister, said Sweden's support of liberation movements in Southern Africa was an example of Swedish foreign policy at "its most successful".

But that policy was largely ad hoc, often led by individuals who smuggled funds to the ANC and other anti-apartheid organisations.

Bank sell-off upsets Slovaks

By Robert Anderson in Prague

The privatisation of Ceskoslovenska Obchodni Banka (CSOB), which owns bank branches in Slovakia and the Czech Republic, has led to a dispute that reflects the outstanding problems from the division of the former Czechoslovakia.

The Czech government could sell its 66 per cent stake as early as May, leaving Slovakia to sell its 25 per cent shareholding later at a potentially lower price. Moreover, Slovakia fears the new owner could demand it settle its disputed \$15.5bn (\$380m) debt with CSOB before buying its stake.

This debt dispute is one of

the most intractable problems left from the 1993 break-up of Czechoslovakia. Its solution became even more difficult when Slovakia insisted it would not repay the money until the Czech national bank handed over gold reserves belonging to Slovakia.

The new governments in both countries have pledged to settle all outstanding issues by the end of this year but this will come too late for the CSOB sale.

The Slovak government wants to sell its stake at the same time as the Czechs to help keep this year's budget deficit to below 2 per cent of gross domestic product.

But the Czech authorities

believe that adding the Slovak stake at this late stage will delay the long-awaited privatisation. "We will not wait until they board the train," said a CSOB spokesman.

The Czechs want to link any sale to a resolution of the debt issue. CSOB and the Slovaks are currently arguing the case before an international court in Washington but the Czech government last year guaranteed repayment of the debt to allow the privatisation to proceed.

Slovakia opposes linking debt repayment to the privatisation. "We are the second biggest owner and I do not like it when someone puts

conditions on our rights," said Vladimir Masar, governor of the central bank.

Mr Masar also gave a veiled warning that he remained the regulator for CSOB's Slovak operations. "I believe that any owners of this stake will want correct, standard relations with us."

CSOB is believed to have begun acting as a mediator between the two nations. One solution could be for another investor, such as the European Bank for Reconstruction and Development, to buy the Slovak stake. The EBRD has held negotiations with Slovakia but it is unlikely that any deal will be reached before the Czech sale.

Yeltsin steps up row with top law official

By John Thornhill in Moscow

Boris Yeltsin, Russian president, yesterday checked out of hospital and ordered the country's powerful security council to investigate any "misdeeds" committed by Yuri Skuratov, the prosecutor general.

The move, which follows a controversial broadcast on state television on Tuesday night purportedly showing Mr Skuratov in bed with two young women, steps up the conflict with the country's top law official.

Mr Yeltsin has been enraged by a decision of the upper house of parliament, the Federation Council, to retain the official. The presidential administration claimed Mr Skuratov, who has launched a series of potentially explosive investigations in recent weeks, was compromised and was being used by Communist extremists.

The stand-off between the president and parliament threatens to grow into the biggest constitutional crisis since October 1993, when Mr Yeltsin resorted to force to dissolve the Supreme Soviet.

But Boris Nemtsov, a former minister who remains close to Mr Yeltsin, predicted the situation could still be defused. "Skuratov is a clever man and sooner or later he will realise that a weak prosecutor general undermines the unity and might of the country. He will himself quit his post," he said.

Following an unproductive meeting with Mr Yeltsin yesterday morning, Mr Skuratov's office issued a press release saying the prosecutor general would continue his investigations.

On March 23 Mr Skuratov is due to meet a top Swiss law officer about the activities of the Lugano-based Mabeta company. The Russian media has reported that Mabeta, which has won several lucrative building contracts in Moscow, is linked with the president's closest entourage.

Many influential politicians continue to support Mr Skuratov, including Yuri Luzhkov, Moscow's mayor and a leading presidential contender.

But Boris Berezovsky, a business tycoon, said the fuss around Mr Skuratov disguised a bigger political battle. "What is happening is not about whether or not Skuratov should keep his job. It is a struggle for power by the Communists by any means possible."

SLOVAK TELECOM FOREIGN PARTNER SOUGHT

Bratislava moves on privatisation

By Robert Anderson in Bratislava

Slovakia, one of the few central European countries whose telecom monopoly is still fully state-owned, will by the end of this month appoint advisers for the entry of a foreign strategic partner into Slovak Telecom.

"We would like to start the process of privatisation in the second quarter," said Frantisek Kurej, state secretary at the ministry of transport, post and telecommunications. "We would like to see the foreign operator functioning on the 1st of January 2000."

The move will be seen as an important signal that the new government supports foreign investment. The previous government of Vladimir Meciar, who stood down in October, favoured domestic entrepreneurs in privatisation deals and failed to follow through on a 1996 decision to begin the sell-off of Slovak Telecom.

The company will be transformed into a 100 per cent state-owned joint stock company by the end of this month and the ministry expects to issue a tender by the end of June. According to its timetable, which will be discussed by the cabinet later this month, preliminary offers would be made by mid October and final offers by the end of November.

The method of privatisation will be discussed with the advisers. Mr Kurej said the ministry favoured making one-third of the foreign investment through the purchase of part of the state stake and two-thirds by raising the total equity.

"The priority would be raising the capital," said Mr

Kurej. "After raising the capital, the foreign investor would have at least 35 per cent and the state would keep at least 65 per cent."

It is still being debated whether part of the state stake will afterwards be floated or exchanged for privatisation bonds held by citizens.

This could help solve the headache of repaying \$2.3bn (\$500m) of these bonds in 2001 and stimulate the dormant Bratislava stock exchange.

Because it had to manage without a strategic partner, Slovak Telecom has relied on foreign borrowing to modernise its network ahead of the end of its monopoly at the beginning of 2003. Igor Chochol, finance director, said the company has \$1.8bn in outstanding loans and will require another \$2.2bn this year.

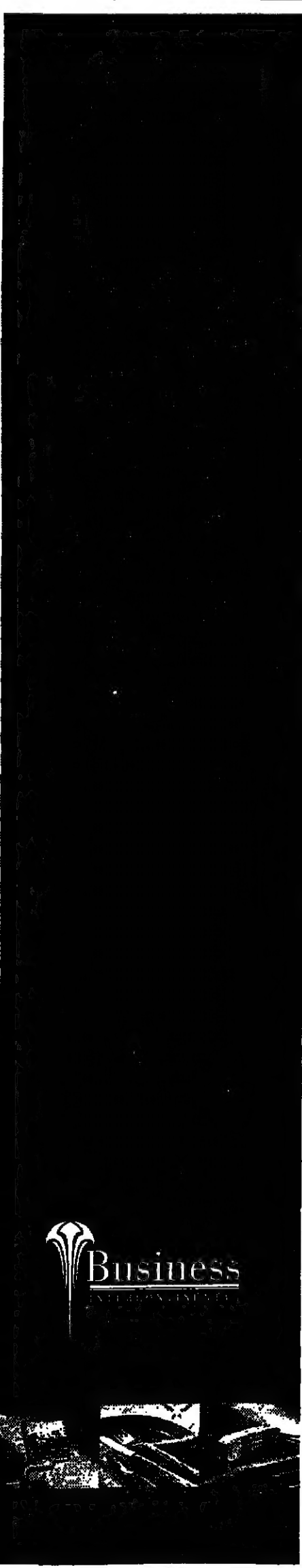
"We would like to have 100 per cent digitalisation and 42 per cent penetration by 2002," Mr Chochol said. "For that we need \$300m."

Mr Chochol said Slovak Telecom currently has 29 per cent penetration (telephones per capita) and has digitalised around 60 per cent of its exchanges. This year it expects to invest \$4.5bn, the same as last year.

The partial privatisation is likely to attract many of the international telecom companies already active in the region.

But interest may be lower because of the short time period of monopoly status left and because several countries in the region are in the middle of their own sell-offs.

Slovak Telecom also faces tough competition from two aggressively-priced mobile phone operators.



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ASIA-PACIFIC

Indian mutual fund faces restructuring

By Krishna Guha in Bombay

India's biggest mutual fund, the \$5bn state-run US-64, needs sweeping changes to restore it to health, according to a long-awaited restructuring plan to be published shortly in Delhi.

The plan is of crucial importance to India's stock markets, which slumped last September on news that US-64 had a gap of more than \$1bn between its assets and liabilities.

This month shares soared after the government revealed the first stage in the rescue plan - a Rs48bn (\$1.13bn) state-funded bailout and tax breaks for mutual fund investors.

The full report says US-64 must move from its current system of assured returns to market-based asset value pricing over a period of three years. "You cannot have a scheme which invests in equity and gives a guaranteed dividend of 20 per cent. It is absurd," said one member of the committee of top bankers and officials which drew up the plan.

It calls on Unit Trust of India (UTI), which manages US-64, to submit to full scrutiny by the stock market regulator, the Securities and Exchange Board of India. Long established schemes run by UTI including US-64, have so far been answerable only to the Reserve Bank of India, the central bank.

The plan demands that

UTI's shareholders - a group of public sector institutions - inject Rs5bn in long-term capital into the fund. At present US-64 has shareholders' capital of Rs50m supporting liabilities of about Rs200bn.

The report also explains the logic behind the structure of the first stage bailout announced in the budget on February 37. This involves the government setting up a fund to buy US-64's portfolio of privatisation stocks at the book value of Rs48bn, compared with the market value of about Rs28bn.

The new fund will pay for the stocks by issuing Rs48bn five-year bonds with a coupon rate of 12 per cent, backed by an equivalent amount of identical government bonds.

"Only the interest outgo will be counted against the fiscal deficit," said the committee member. "We have solved a Rs50bn problem with Rs5bn."

He said the equity-forbonds swap would rebalance US-64's portfolio in favour of debt, and provide high yield to meet redemptions and dividend payments.

The plan envisages that the new fund will act as a warehouse for the privatisation shares. US-64 may repurchase them if their market value rises in line with the book value. The shares could then be sold for cash in the open market.

N KOREA-US INSPECTIONS DEAL JAPAN PM'S VISIT TO S KOREA OFFERS WAY TO RE-ENGAGE IN EFFORTS TO AVOID REGIONAL CRISIS

Obuchi given golden chance in Seoul

By Michio Nakamoto in Tokyo

The Japanese prime minister's visit to South Korea starting today has turned out to be more timely than he could have initially imagined.

Keizo Obuchi arrives in Seoul just days after a much awaited breakthrough in talks between the US and North Korea to allow inspections of a suspected nuclear weapons site. The summit meeting between Mr Obuchi and President Kim Dae-jung scheduled for tomorrow will provide Japan with a convenient and well timed opportunity to re-engage itself in international efforts to avert a possible crisis on the Korean peninsula.

Just as importantly, perhaps, a reaffirmation of

mutual co-operation could help ease regional concerns over recent hints of a more assertive Japanese stance on self-defence and emerging signs of nationalism in the face of the North Korean threat.

Ever since North Korea launched a missile over Japanese territory last autumn, Japan has taken a more hardline stance than either South Korea or the US. The Japanese government has continued to refuse food aid and maintained an embargo on flights to North Korea.

This hardline stance has made Japan appear at odds with the US and South Korea in policy towards the North, raising concerns that Pyongyang could use their differences to its advantage.

More annoyingly for

Japan, there are no signs that it is working. "The Japanese stance aims to send a message to North Korea, but North Korea has completely ignored it," says Teruo Komaki, senior researcher at the Institute of Developing Economies in Tokyo.

Unofficial contacts with Pyongyang have also apparently yielded little. But in spite of South Korean and US entreaties for a more conciliatory approach, public resentment over the missile launch and alleged kidnappings of Japanese citizens by North Korean agents has made it difficult to adopt a less confrontational stance.

But appearing at odds with South Korea, which has adopted a conciliatory "sunshine policy" towards the North, does little to bolster

Japan's position in the regional balance or help its vulnerability.

Although relations between Japan and South Korea have improved substantially since the visit of President Kim last year, any greater trust South Korea has developed in Japan is shaky enough to be undermined by an insensitive remark from a careless politician. "Japan does not have the trust of Asian countries. This is even true with Korea," says Tadashi Kimiya, assistant professor at Tokyo University.

The Japanese government's increasingly assertive stance with regard to its self-defence options does not help either. Members of the ruling Liberal Democratic party (LDP) have stated pub-

licly that Japan has the right to launch a pre-emptive strike against a hostile country, such as North Korea, if it fears a missile attack is imminent.

Japan's neighbours are also likely to feel ill at ease about the apparently huge popularity of Shintaro Ishihara, novelist and former LDP parliamentarian. Mr Ishihara, who is leading the polls in the Tokyo gubernatorial race, is well known for his hawkish views and lack of patience with Japan's US-dictated foreign policy.

There will be further unhappiness at deliberations in the Japanese Diet over new legislation that will increase Japanese military co-operation with the US and has raised questions about the constitutional con-

straints on the country adopting a more assertive defence policy.

South Korea understands the importance of increased Japanese co-operation to US forces, says Mr Kimiya. But, given the history of Japanese occupation of Korea, there is bound to be tremendous wariness towards any Japanese involvement on Korean territory.

Mr Obuchi's visit should help towards easing such concerns, particularly if it encourages Japan to bring its policy towards the North more in line with that of Seoul and Washington. "We must co-operate with each other to deal with issues concerning North Korea. We should not have any discord between us," Mr Obuchi emphasised yesterday.

S Korea sees conciliatory tactics bearing fruit

By John Barton in Seoul

North Korea's agreement to accept US inspections of a suspected underground nuclear site in Seoul as a victory for the conciliatory approach favoured by Kim Dae-jung, the South Korean president.

In contrast, Tokyo suspended talks with Pyongyang about establishing dip-

lomatic relations and halted food supplies to the starving North after a missile launch last year. It said food aid and dialogue would not be resumed until North Korea allowed concerns over missile development and the suspected nuclear facility.

If the North test-fires another missile, Japan has threatened to withdraw \$1bn to help finance the building

of safe nuclear reactors promised to North Korea in 1994 after Pyongyang agreed to freeze its suspected nuclear weapons programme.

Officials in Seoul fear that if Japan abandons the 1994 nuclear accord it would encourage the North to resume nuclear development. Pyongyang has already complained about

delays in the construction of the new nuclear plants after Tokyo suspended payments last year in response to the missile launch.

Tokyo's hawkish tone has raised concerns in the South, where worries about an increased Japanese regional defence role are a reflection of the bitter feelings about Tokyo's brutal colonial rule of the Korean peninsula

between 1910 and 1945. Officials in Seoul are privately ambivalent about Japan's recent decision to develop a theatre missile defence (TMD) system with the US to protect north-east Asia from medium-range North Korean missiles.

"It places us in an awkward position," said a South Korean foreign ministry official. While Seoul acknowl-

edges the need for defences against a common foe, it is also worried that TMD might be part of a build-up of Japanese military might and could escalate tensions with North Korea and China.

South Korea would not benefit from TMD since it is useless against the short-range Scud missiles that North Korea could launch against the South.

Tung weathers two hard years to keep Hong Kong on track

Peter Montagnon and Rahul Jacobs look at the buffeting the chief executive has endured and how he has coped

He has a very difficult job. Would you like it?" Such was the recent retort of Sir William Pines, former chairman of HSBC Holdings, to journalists asking him about the performance of Tung Chee-hwa, Hong Kong's chief executive.

Of late, Mr Tung's task has been particularly hard. He has had to cope with the territory's first serious row with China since the 1997 handover, face down a vote of no confidence in Elsie Leung, his secretary for justice, and preside over a budget that was always going to be judged for the effectiveness of its response to the worst economic crisis in more than a generation.

These developments underline the two main challenges for his administration, he said in an interview. One is to make sure that the concept of "one country two systems" works properly; the other is to deal with the immediate economic crisis without losing sight of the need to position Hong Kong for long-term growth and prosperity.

But in responding to these challenges, he is also increasingly putting his personal stamp on the administration. Mr Tung stresses continuity in economic management, but his interest in developing sectors such as information technology and tourism point to a government more willing to steer the economy.

Managing the transition has been a tough task for a man whose roots are in business, not politics. Mr Tung is

not a natural communicator. Instinctively conservative and sometimes ill at ease with the sniping local media, he lacks the backing of a political party that can help formulate policy and mould consensus.

Meanwhile, he is assailed on all sides. Li Ka-shing, the property tycoon, complains that Hong Kong has become too politicised. Martin Lee, the Democrat leader, fears an erosion of the rule of law. Seto Wah, another Democrat with roots in the work-

His close direct links with mainland leaders clearly helped

ing classes, accuses him of being more interested in helping big business and ignoring ordinary people.

Sometimes the chief executive has seemed to fumble in balancing these various pressures. Many in the legal profession, for example, have expressed concern at the government's role in persuading the Court of Final Appeal, supposed to be Hong Kong's highest legal authority, to clarify a ruling on immigration last month. The ruling upset China because it appeared to question the right of the National People's Congress to interpret the Basic Law. Hong Kong's constitution.

But others say that, while the dispute shows the limits

of Hong Kong's legal independence, Mr Tung at least managed to limit the damage by moving quickly to lance the problem once China complained. His close direct links with mainland leaders clearly helped.

According to one western diplomat in Hong Kong, the chief executive has made a reality of "one country" in a way that makes the mainland more relaxed about "two systems". "This gives the administration here considerable leeway," he says.

Mr Tung agrees. Yet the "one country" part comes naturally to a native of Shanghai and a patriotic Chinese. Besides, he said, China had obligations, too.

"We in Hong Kong, of course, want to preserve two systems. The best way to preserve two systems is to understand our country and understand one country. Similarly, it is important across the border for people to think a lot about two systems, how to make it work."

As for the economy, there was no avoiding the need for the territory to adjust. "Our coasts were running too high and the financial turmoil actually accelerated that process of adjustment. The faster we can adjust, the earlier, the recovery can be."

Also, he stressed that any new industries in high technology would have to be market-led. Whatever critics said, there were no special



Tung Chee-hwa: 'a very difficult job'

favours for individual big business.

"We will not apologise for emphasising the importance of creating a good climate for business," he added. This approach is in the tradition of Hong Kong governments going back decades, who were never as *laissez-faire* as they are sometimes made out. "The success of Hong Kong is because we have constantly been able to produce a friendly environment to enable the private sector to get on with it. This has not changed, because it is important that the private sector should lead."

Then there is the question of the rule of law. The case involving the Court of Final Appeal is not the only one

that has given rise to doubts. The government came under criticism for its decision not to prosecute Sally Au, proprietor of the Hong Kong Standard newspaper and a friend of Mr Tung, for corruption in a case in which three of her employees were convicted of rigging circulation figures. Mr Tung insisted that "nobody is above the law and we will rigorously enforce this," but he admitted that only time would erase doubts.

The public will be watching closely. And its demands add to pressures in all sorts of ways. "We are a very open society and therefore we must constantly listen to the aspiration of the people," said Mr Tung.

China offers Taiwan contact

By Mure Dickie in Taipei

China yesterday offered to send its top Taiwan affairs negotiator to the island in the autumn this year, a vague proposal that underlines the many differences between Beijing and Taipei but at least sets a possible rough timetable for contacts between them.

Li Yafei, deputy head of Beijing's Association for Relations Across the Taiwan Strait, said the association's head, Wang Daohan, might travel to Taipei and the southern city of Kaohsiung during his unprecedented trip to the island, which China considers a rebel province.

Taiwan officials expressed disappointment at China's failure to propose specific dates for the visit and accused Beijing of renegeing on a commitment to arrange the trip this spring - a claim Mr Li dismissed. Mr Li and his hosts were equally at odds on the possible content of talks during Mr Wang's visit, which follows a land-

mark visit to the mainland by a Taiwan official, Koo Chen-fu, last October.

China wants the next round of Koo-Wang meetings to show progress toward reunification, while Taiwan is adamant they should focus on practical issues.

However, China's setting of a rough time for the visit - even as ill-defined as autumn, a season difficult to define in a vast nation with a plethora of climates - will force a timetable of preparations for an event of symbolic significance.

Disputes over China's missile deployments and Taiwan's possible involvement in a US-led missile defence system have threatened the tentative resumption of contacts across the Strait.

"I think Wang Daohan's visit will be smoothly accomplished... based on the separate perception and interpretation of the visit," said Andrew Yang, head of the Chinese Council of Advanced Policy Studies in Taipei.

Phnom Penh takes a firm line on Khmer Rouge trial

By Ted Barakacki in Phnom Penh

The Cambodian government yesterday reiterated its opposition to an international tribunal to try leaders of the defunct Khmer Rouge guerrilla group.

The move came despite a personal recommendation from Kofi Annan, UN secretary-general, that such a tribunal be set up. "Any trial will take place here. We told Mr Annan that. We thought he had understood our position," said a Cambodian government official.

He was referring to a meeting last week between Mr Annan and Hor Namhong, foreign minister, at which Cambodia detailed its objections to an international tribunal.

The meeting took place before Mr Annan submitted a report to the UN Security Council and General Assembly on options for prosecuting Khmer Rouge leaders, who presided over the

deaths of as many as 2m Cambodians in the mid-1970s.

The report advocated that the UN set up an international tribunal to try 20-30 Khmer Rouge leaders.

In a covering letter to the report, Mr Annan said: "It is my view that Khmer Rouge leaders responsible for the most serious of crimes should be brought to justice and tried before a tribunal which meets international standards of justice, fairness and due process of law."

He accepted the report's conclusion that the Cambodian court system was not capable of organising a trial that met such standards.

Cambodia is organising a trial for Ta Mok, the Khmer Rouge military leader, and the only member of the group's leadership to have been arrested. Mr Annan said the trial of a single Khmer Rouge leader "would not serve the cause of justice and accountability".

Mr Annan's strong stand

surprised diplomats in the Cambodian capital, who were already preparing for the international trial proposal to withdraw away because of a lack of co-operation from the Cambodian government.

Mr Annan noted that it would be difficult to arrange for prosecutions without government help in detaining suspects.

"Let's see how hard the UN can push to make this happen. I don't see a lot of leverage," said an Asian diplomat.

Thomas Hammarberg, UN representative for human rights in Cambodia, arrived in the country earlier this week seeking a meeting with Hun Sen, the prime minister. He said he wanted details of a Cambodian government request for international help for a domestic trial.

Some diplomats have suggested the UN may now seek a trial in Cambodia with a great deal of international input.

Bank warns on Philippine economy

By Tony Tassell in Manila

The World Bank has sounded a cautionary note on the outlook for the Philippines after recent business optimism over the country's unexpected resilience during the Asian economic crisis.

In a report on the country, it warned that the economy might not have bottomed out yet and would find it difficult to achieve "even a modest recovery of 2 per cent in 1998" - a level well below government targets.

The bank also warned that the country's dependence on electronics for export growth posed medium-term risks and that further reforms were required to streamline the public sector, strengthen banking and corporate regulation, improve labour competitiveness and mobilise long-term savings.

The bank said the Philippines had withstood the regional crisis better than most market economies in east Asia, with the banking and corporate sectors "withstanding" the systemic collapses seen elsewhere. However, the momentum of growth and optimism built up in early 1997 had been dealt a severe blow and economic growth had stalled in 1998, with real gross domestic product contracting by an estimated 0.5 per cent.

The outlook for recovery was "clouded" by uncertain prospects for private capital flows and high levels of corporate and banking stress. This could continue to restrain investment, credit demand and credit access.

While the economy in 1999 might be boosted by a pick-up in agricultural growth after a drought, the bank said export growth was slowing late last year, and industrial production and imports were declining.

Its forecast that the economy would at best achieve growth of 2 per cent contrasts with government targets of 3 to 3.7 per cent growth in gross national product and 2.6 to 3.3 per cent in GDP. But it is in line with private sector economists' average forecasts of 1 to 2 per cent GDP growth.

In the medium term, the World Bank forecast that the pace of recovery would be influenced by two factors - the extent to which financial stress has been alleviated and the uncertain outlook for private capital flows.

It said these factors pointed to a relatively modest recovery, with growth averaging about 4 per cent during 2000-3 and current account deficits remaining below 2 per cent of GNP during this period.

"While the rate of growth is not expected to return quickly to pre-crisis levels, the crisis does provide an impetus to accelerate structural reforms that would improve both the quality and sustainability of the growth that is achieved," the World Bank said.

China attacks 'cold war' critics in U

Government build alliance

Record \$17bn

Record \$1.5bn bond

China attacks 'cold war' critics in US

By Tony Walker in Washington

China yesterday accused critics of Sino-US ties of seeking to demonise China in a sign of Beijing's deepening concern over a souring of relations ahead of a visit to the US in early April of Zhu Rongji, China's premier.

In an unusually frank briefing, a senior Chinese official in Washington said allegations of theft of nuclear secrets were "unfounded" and he charged that China's opponents, including members of Congress, possessed a "cold war mentality".

He Yafei, minister at China's diplomatic mission, sought to carry the propaganda battle to American soil in what appeared to be the opening shots in a Chinese counter-offensive in the US to head off damaging allegations of pilfering of weapons technology.

"Some people in the United States are not happy to see any progress in the relationship between China and the United States," Mr He said. "They still have a cold war mentality... they are sorry the Soviet Union is no more."

The Chinese official's remarks coincided with further steps by the administration to tighten security at its national weapons laboratories, including additional funds for heightened computer security and stricter controls on communications, including e-mail.

Bill Richardson, secretary of the department of energy, has also announced that John Deutch, former director of the Central Intelligence Agency (CIA), had been asked to review scientific exchanges between weapons facilities and foreign counterparts to ensure that security is not being compromised.

Mr He specifically rejected allegations that a Taiwan-born scientist at the Los Alamos, New Mexico, defence facility had passed secrets of W88 Trident ballistic missile warhead technology to China.

"Reports in the American media about China's theft of US nuclear (secrets) are completely unfounded and irresponsible," he said.

China's representative sought to emphasise the positive aspects of Mr Zhu's forthcoming visit to the US - the first by a Chinese premier in 15 years. He described the visit as "another milestone" in relations.

"We wish to overcome difficulties and obstacles to make this visit a success," he said. Mr Zhu is expected to spend about 10 days in the US with visits to Los Angeles, Denver, Washington, New York, Chicago and Boston.

He will hold a summit meeting with President Bill Clinton and extensive talks with other senior administration officials. US businesses have planned a series of meetings around the country.

Clinton acts to head off China 'feeding frenzy' in Washington

Zhu Rongji's visit to the US next month is putting the spotlight on policy objectives, write Tony Walker and Nancy Dunne

When President Bill Clinton today gives his first full news conference in months, he will use the opportunity to limit further damage to relations with China battered by allegations over theft of nuclear secrets and reports of missile proliferation.

Administration officials responsible for China policy have argued for a more vigorous defence of "constructive engagement". The risk is that damage control efforts will prove too little too late in Washington, said by one official to be in the throes of a "feeding frenzy" of anti-China sentiment.

The arrival in the US in early April of Zhu Rongji, China's premier, is energising discussion about the need to prevent engagement with China, a key element of Clinton's foreign policy, sliding into disarray.

Such has been the intensity of criticism over issues ranging from human rights to proliferation that usual allies of the administration,

including the business community, have seemed mute.

That is set to change in the lead-up to Mr Zhu's visit, which is being eagerly anticipated by US business. Robert Kapp, president of the US-China Business Council, said the "task in hand" was to make the case that a "stable and growing economic relationship with China, characterised by further integration of China into the global economy, is in the national interests of the United States".

There have been recent stirrings within US business over the costs of a blow-up with China. Leading computer companies, including IBM and Intel, have banded together in the Computer Coalition for Responsible Exports to counter restrictions on exports to China.

Computer exports have been caught up in the furor over concerns that Chinese purchases of supercomputers have a dual civilian and military purpose.

Existing US investment in China now exceeds US\$20bn.

China, including Hong Kong, is the US's fourth largest trading partner, and the US is China's second biggest market after Japan. But difficulties facing the administration in preparing for Mr Zhu's visit are exemplified in its efforts to bridge the gap over terms of entry to the World Trade Organisation.

Charlene Barshefsky, trade representative, appeared before a sceptical House ways and means committee this week to argue there had been progress in persuading China to open its markets in agriculture, telecommunications and financial services. But even Democrat congressmen are urging the White House to pull back on WTO.

The US and China have been locked in intense negotiations over the WTO in the hope that an entry timetable would crown a Zhu visit, which otherwise risks being short on substance and buffeted by fallout from spying allegations.

The administration is also



Zhu Rongji (left) and Clinton: tough talking on both sides has complicated the relationship

braced for further difficulties with China in the next week or so as it decides whether to support a resolution at the UN Human Rights Commission in Geneva criticising Beijing's human rights behaviour.

Washington appears to have little choice but to support the resolution after the State Department, in its annual review of China, noted a deterioration. Such a vote would further displease Beijing and may even jeopardise Mr Zhu's visit.

All this marks a far cry from the warmth which surrounded Mr Clinton's visit to Beijing last June, when the two sides sought to flesh out a policy of "constructive strategic engagement". That now appears at odds with the realities of the relationship.

Douglas Paul, president of the Asia Pacific Policy Centre and a former senior staffer of the National Security Council in the Reagan

and Bush eras, said the administration was paying the price for "mood swings" in its China policy - from early criticism of "cold-war dictators" in Beijing to the recent over-selling of engagement policy.

Mr Paul said the administration needed to bring its China policy under control or risk further damage to the relationship.

To do so, Mr Clinton and his foreign policy team face a hard sell.

NEWS DIGEST

ECUADOR PACT

Quito government builds majority alliance

Ecuador's government formed a new majority alliance in the early hours of yesterday morning, making what could be a crucial breakthrough to end the political deadlock that has brought the country to the brink of economic collapse.

The new alliance, consisting of seven political parties and two independent MPs, making a total of 70 seats in the 121-member Congress, has agreed to vote by early next week on tax reforms to cut by \$520m the 1999 fiscal deficit of \$1.2bn, or 8 per cent of gross domestic product.

The political pact should pave the way for an estimated \$930m in loans from multilateral institutions such as the International Monetary Fund and the World Bank. The IMF warned earlier this week that it could not sign a loan agreement with Ecuador until it had an economic plan which enjoyed broad-based support.

The political breakthrough came after a third day of violent clashes between protesters and security forces in cities across the small Andean nation of 12m people, as a national transport strike continued to paralyse the country.

The protests had been sparked by an austerity package proposed by the government last week which included a rise of more than 100 per cent in fuel prices. Jamil Mahuad, president, yesterday partially revoked the fuel price rise. Justine Newsome, Quito

US TRADE

Deficit hits record \$17bn

The US trade deficit hit a record \$17bn in January, exceeding economists' expectations and forcing down many estimates of first quarter gross domestic product. The figure comes amid growing protectionist pressures in Congress but analysts, who had predicted a figure nearer \$14.8bn, said the 21 per cent rise on December's deficit of \$14.1bn reflected economic fundamentals rather than trade practices.

The Commerce Department said the largest bilateral trade deficit was with China - up to \$4.88bn from \$3.98bn in December. Chinese steel imports rose 65 per cent. William Daley, commerce secretary, is to raise the issue of steel imports, the subject of quotas passed by the House on Wednesday, with China on a trade mission this month before Beijing's bid to join the World Trade Organisation. The move follows the threat of anti-dumping duties to curb steel imports from Japan, Russia and Brazil.

The surplus with Latin America shrank by nearly \$1bn. The trade gap narrowed against Japan and Europe but widened against Canada and the rest of Asia. The goods deficit rose \$2.9bn to \$23.4bn while the service surplus was unchanged at \$6.4bn. Gautam Malkani, Washington

MEXICAN FUNDING

Gurria hopes for \$1bn bond

Mexico is hoping to issue a \$1bn international bond in the near future, José Angel Gurria, Mexico's finance minister, said yesterday.

The offering, which would fulfil the remainder of Mexico's 1999 external funding requirements, could be priced to yield as little as 350-375 basis points over US Treasury bonds, said Mr Gurria. This would approach the low cost of funding Mexico was able to achieve before the onset of the Asian financial crisis in 1997.

Bankers said that Mexico might be hard pushed to tap the markets at such low rates. "There's a feeling that emerging markets in general and Mexico in particular are turning the corner so a lot of banks are bidding very aggressively for deals," said one. Edward Luce, London Asian crisis is over, Page 23

On the web today

● Argentinian activists revive plan to get Menem third shot at presidency ● Alberta throws down a challenge on taxation ● Business chiefs make a plea to Chávez <http://www.ft.com/americas>

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INTERNATIONAL

Israel locked in growing battle to shape the future identity of the state

The clash over the rule of law is worsening as society splits, writes **Judy Dempsey**

When a senior Israeli diplomat was asked about the resignation of the European Commission this week, he seemed perplexed. "It was strange how they all resigned. Europe should take a leaf out of our book. Nobody resigns here."

Two days later, Aryeh Deri, leader of Israel's powerful ultra-Orthodox Shas party and Knesset (parliament) deputy, was convicted of bribe-taking, fraud and breach of public trust. But instead of resigning, Mr Deri said the verdict by the district court judges was wrong. He would appeal to the Supreme Court and he would continue in office. He was backed by Eli

Suissa, interior minister in Benjamin Netanyahu's coalition government. Mr Suissa also said the judges were wrong, since he knew Mr Deri better than they did.

The Deri case, regardless of the evidence, will be used by Shas supporters (Sephardic Jews from north Africa and the Middle East) to claim discrimination by what they believe are courts dominated by secular, European Ashkenazi Jews, even though the ethnic and religious composition of the courts is changing.

However, the case transcends the ethnic (Jewish) divisions in Israel.

What it represents, said Mordechai Kremnitzer, law professor at the Hebrew University, is the growing battle

within society to shape the future identity of the state.

"There is a very significant section of Israeli society that is antagonistic towards the courts as we tackle the issue of reconciling democracy with Judaism. At issue is the rule of law."

The battle over the rule of law has intensified as Israeli society rapidly fragments. Nearly 1m new Russian immigrants want to influence the political agenda.

The ultra-Orthodox religious parties, numerically much stronger, are wooed by prime ministers to form governments. In return, they seek to win financial concessions to boost their religious communities and strengthen religious observance at the expense of civil society.

Such fragmentation has been abetted by the disintegration of the old elites.

From the founding of the state in 1948 until the 1970s, the secular, Zionist left-wing Ashkenazi elites spanned the arts and media, courts, army and academia.

Grouped around Mapai, the precursor to the Labour party, they controlled key state institutions.

Through these, they administered the fledgling state along highly centralised, censored, socialist lines, while disbanding favours. In the process, they paid lip service to public accountability.

"Then, the *raison d'être* was state building - a kind of *raison d'état*," said Michael Partem, deputy chairman of the Independent Movement for Quality Government. Such a state-building process excluded the Sephardim, until the late Menachem Begin formed Likud

and won the 1977 elections.

Yet as Israeli society fragments, the emerging elites, instead of increasing public accountability and strengthening the courts, are using their new power to settle old scores and set their own agenda.

In this respect, said Mr Partem, "the courts are becoming the lightning rod," especially since Aharon Barak, chief justice, supports judicial review, giving the citizen the right to challenge government actions through the supreme court.

But if Shas ever gains power, as Mr Deri explained in a recent interview, he would institute the rule of *Halacha*, or Jewish law, which would impose strict regulations on public life, including dress, entertainment, education and the judiciary.

The secular, Ashkenazi courts, he claimed, were against religious Jews.

But the attacks on the courts are not confined to the ultra-Orthodox. A section of the new secular Russian group of immigrants, headed by Avigdor Lieberman, Mr Netanyahu's former cabinet secretary, has a different agenda.

"This is the war of democracy against the oligarchy," said Mr Lieberman, when he recently launched his new political party. "This is the war of the majority - new immigrants, development towns, settlers and *Haredim* (ultra-Orthodox Jews) - against the elites. I have not one iota of faith in the justice system and law enforcement in Israel."

Judges are not prepared to dismiss such statements as rhetoric. Those involved in

high-profile cases, such as Mr Deri's, have received death threats. Many require police protection. Increasingly, the judiciary cannot depend on the government to defend it.

Tzahi Hanegbi, justice minister, for example, dismissed last week's report by the state comptroller which cleared Ehud Barak, labour party leader, of renegeing on his responsibilities when soldiers under his command were accidentally killed in a training exercise. Mr Netanyahu did not rebuke his minister. "We are on a collision course," said Mr Kremnitzer. "There are blatant denials of the authority of the law and the courts by a significant section of society. It is really very dangerous for our democracy."

Editorial comment, Page 21

Afghan ban for UK and US aid workers

By Michael Littlejohns, at the United Nations, in New York

Britain and the US have told the United Nations to exclude their citizens from UN staff beginning to return to Afghanistan, because they take seriously implicit threats to their safety by Osama bin Laden, the alleged terrorist leader who may still be in that country after the Taliban reported him missing.

Officials in New York last night confirmed that Kofi Annan, UN secretary-general, agreed that Britons and Americans should not go back pending a review by Benon Sevan, his security co-ordinator. Also for safety reasons, nationals of the two countries are excluded from UN aid operations in Iraq.

Fears for their safety in Afghanistan were heightened by remarks attributed to Mr bin Laden in a magazine article that any person whose taxes helped to pay for "the American war machine against the Moslem nation" was a legitimate target.

Sergio de Mello, head of UN humanitarian operations, authorised the return of aid staff to Afghanistan under an agreement with the Taliban, which controls most of the country.

He disclosed that in negotiations he repeatedly raised the "bin Laden problem" and was assured the alleged terrorist leader was not above the law. Furthermore, his followers "would not be allowed to put lives of international staff at danger".

Officials said neither Washington nor London accepted those assurances and responded by intervening with the UN on behalf of their citizens. Their action was said to have created friction with other nationals, because governments are supposed not to interfere in UN staffing matters.

However, Fred Eckhardt, UN spokesman, said last night: "This is not a constitutional issue; it is a security issue." He called the exclusion of the Britons and Americans a provisional measure.

Mr Annan ordered a pull-out of UN staff from Afghanistan, for security reasons, last August after the US launched missiles at camps in the southern part of the country suspected as training bases for Mr bin Laden's followers.

The raids were a response to the bombing of American embassies in Kenya and Tanzania, with the loss of 250 lives, which Mr bin Laden is believed to have masterminded.

An Italian colonel employed by the UN and three aid workers were murdered in Kabul in the same month, a further reason for Mr Annan's action.

IOC backs reform of bids process

By Patrick Harrington in Lausanne

The International Olympic Committee yesterday approved radical reforms to the bidding process for the 2006 Winter Olympic Games that strip its 108 members of most of their powers to evaluate candidates and choose the host city.

At the special two-day session in Lausanne called in the wake of the Salt Lake City scandal, the IOC approved a complete ban on visits to bidding cities by its members and backed the executive board's proposal to hand over the bulk of the responsibility for assessing the bids to two internal groups.

The ban on visits was criticised by most of the cities bidding for the 2006 Games. A representative of the candidacy from Turin said: "If they had told us one year ago, we would have thought twice about bidding."

Apart from Turin, the other bidders are: Sion (Switzerland); Helsinki; Zakopane (Poland); Poprad-Tatry (Slovakia); and Klagenfurt (Austria). Before the host of the 2006 Games is chosen this summer, a committee will publish a report on the six competing bids, after visiting candidate cities.

A newly instituted selection college made up of 15 individuals and the IOC president will then whittle the number of bids to a short-list of two candidates at the annual congress in Seoul in June, before the final decision on the host city is made by the organisation's 108 members.

The new procedure is intended to eliminate the possibility of bribery in the selection process.

The discovery that some IOC members had received thousands of dollars in cash,

gifts and free trips sparked the current crisis in the Olympic movement and prompted the IOC to initiate the reforms.

The changes approved yesterday are only interim measures. A new committee, called IOC 2000, will be set up to draw up permanent changes to the bidding process, as well as reforms to the organisation's structure.

The IOC has also decided to set up an ethics commission to oversee its activities. Both bodies will include prominent individuals from outside the Olympic movement, the first time independent figures have been asked to play a significant role in the management of the IOC.

Under its new policy of transparency, the IOC disclosed yesterday details of its finances and payments to executive officials and members.

They showed that in 1997-98, the financial year covering the winter Games in Nagano, Japan, the IOC ended with a surplus of \$39.8m on revenues of \$85.7m.

The figures also showed the IOC has \$136m of reserve funds, and another \$Fr95m (\$65m) operating funds in its separate Olympic Foundation account which covers the running of the Olympic Museum.

The IOC's director of finance also revealed that the cost of putting up Juan Samaranch, IOC president, in his permanent hotel suite in Lausanne totalled \$204,000 last year.

Special payments to the executive board for attending IOC meetings had doubled at the end of 1998 from \$500 to \$1,000 per board member. These payments exclude board members' travel, accommodation and living costs, which are met by the IOC.

Congo economy plunges to new and deeper depths

The government is stuck in the mindset of the interventionist 1960s, writes **Michela Wong**

For many Congolese, the statement by Orgamean marked the moment when the alarm bells really started to ring.

For decades, the company had been a mainstay of Kinshasa's economy, importing the capital's fish and meat in the face of army rampages, rebel attacks and civil unrest. Now Orgamean was warning that it would have to suspend core activities because it had become "nearly impossible" to find the foreign exchange needed to buy goods abroad. "If Orgamean cannot import, then it really is the end," said a veteran politician.

"What are Kinshasa's 5m people going to eat?"

Orgamean's declaration was a measure of the severity of the crisis that has hit the Democratic Republic of Congo. As the rebel uprising launched last July with Rwanda and Uganda's backing

simmers on, the economy is touching depths unknown even during the late President Mobutu Sese Seko's chaotic reign.

Congo's key industries - copper and cobalt mining and diamond extraction - are in vertiginous decline. Once-excited foreign investors are steering clear. Small and medium-sized enterprises are laying off staff. Even the huge, informal economy is crippled, paralysed by fuel rationing, which leaves literally thousands of residents standing by the roadside every morning and evening, waiting for taxi-buses that never come.

At the heart of the crisis lie measures that were intended to show strong government on the part of the rebel movement that seized control of the country in May 1997, but have instead exposed a naive cabinet's shaky understanding of an idiosyncratic economy.

Aiming to shore up the



Basket economy: A woman selling peanuts in a Kinshasa market

Fares

new Congolese franc and control inflation, the government in January outlawed local transactions in US dollars and cracked down on foreign exchange bureaux, keeping the official exchange rate artificially high.

In some African economies, the impact would have been limited. But during the Mobutu years, foreign exchange was the only safeguard against hyperinflation and dollars were estimated to account for more than 60 per cent of the monetary mass. With this declared off limits, basic commerce is grinding to a halt.

With exports already hit by the war, importers like Orgamean are struggling to locate the foreign exchange they need to keep operating. The petrol companies face the additional problem of a government unable to repay its debts. With pump prices fixed by the state at barely

profitable levels, they are keeping stocks low and rationing distribution.

Pragmatic considerations certainly lie behind the policies: President Laurent Kabila needs foreign exchange to buy arms and pay Angola, Zimbabwe and the other African allies whose military intervention saved him from defeat by the rebels last year and who still have troops stationed in strategic Congolese towns.

But the demands of war are not the only explanation. Mr Kabila and his aides trace their lineage back to Patrice Lumumba, Congo's post-independence hero. Philosophically, say their critics, they remain stuck in the interventionist 1960s, when socialist administrations were loath to let the market run free.

"The incompetence is just incredible," says a western analyst. "They have not managed the transition from rebel movement to government at all. And despite making mistakes after mistake, they're too paranoid to take advice from outside."

One casualty has been the diamond trade, where the dollar ban has accompanied legislation expelling foreign nationals from mining areas, effectively removing many of the middlemen who provided artisanal diggers with their link to the international market.

Exacerbating the crisis is the government's determination to channel all trade through a new diamond "stock exchange" in Kinshasa, whose operating rules and *raison d'être* remain worryingly unclear.

In the central diamond town of Mbuji Mayi, diggers are now either sitting on their stocks or sending stones into neighbouring Angola rather than be paid

in non-convertible francs. Affecting a town renowned for its independent streak and believed to be high on the rebels' list of targets, the measures seem extraordinarily ill-timed.

With tax revenues less than half what they were before the war, the government's cash-raising techniques smack of desperation.

Manoeuvres such as founding a political party, registering a church or opening a street-side hair-cutting booth all now come with suspiciously hefty price tags. High-profile companies are fined for supposed "economic crimes" committed under Mobutu. The stocks of Kinshasa's timber exporters were recently seized by the government, apparently intent on selling the precious wood abroad in violation of international law.

Hard on the heels of the controversial signing of a joint-venture giving the Zimbabwian company Ridgepointe 90 per cent of state copper company Gécamines' assets, come the sales of minority stakes in a bevy of multinationals. "The majority shareholders are delighted," says a banker. "But the state can only do this once. Then what?"

In private, Kinshasa's businessmen despair. But in an increasingly repressive political climate, in which chief executives have joined journalists and opposition politicians as targets for routine arrest, open dissent is no longer an option.

"There is no difference between the central bank under Mobutu and under Kabila," says an insider. "Money was taken out in defiance of the rules then and the same happens now. Refusing Kabila anything has become impossible since the war."

Anywhere else, a burgeoning crisis of such magnitude would trigger revolt, bringing about what the rebels failed to accomplish. But most analysts agree that the Congolese are too injured on deprivation to produce the explosion of fury that overturns a regime.

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Health research 'neglects poor'

By Frances Williams in Geneva

Less than 10 per cent of the \$56bn a year spent globally on medical research is aimed at the health problems affecting 90 per cent of the world's population, according to the first annual report of the Global Forum for Health Research.

The Geneva-based forum, created in 1997 to try to narrow the research gap, links international bodies such as the World Health Organisation and the World Bank with governments, researchers and private sector companies.

Pneumonia, diarrhoea, tuberculosis and malaria account for more than 20 per cent of the disease burden of the world but receive less than 1 per cent of the funds devoted to health research, the report says.

While the direct and indirect costs of malaria in Africa exceed \$2bn a year, the disease could be controlled for one-tenth of that amount. Moreover, because of poor commercial prospects pharmaceuticals companies have largely withdrawn from research and development of anti-malaria drugs.

The forum argues in the report that priorities in health research should be

shifted towards those areas which create the highest burden of disease and for which limited funds are currently available.

In terms of Disability Adjusted Life Years (DALYs), a comparative indicator that takes into account premature death and years of disability, the highest burden of disease now comes from respiratory infections, diarrhoeal diseases and perinatal conditions. However, by 2020 the main causes of death and disability will be heart disease, depression and road traffic accidents.

Warning that global health problems are too big to be tackled by one institution alone, the forum has promoted research partnerships in areas varying from tuberculosis to family violence.

Gro Harlem Brundtland, WHO director-general, has also adopted the partnership model for the push she is making on malaria and tobacco. Both these initiatives have drawn in pharmaceuticals companies as well as other funding agencies willing to sponsor research.

* The 10/90 Report on Health Research 1999. Available from: Global Forum for Health Research, c/o WHO, CH-1211 Geneva 27, fax +41 22 791 4394, e-mail info@globalforumhealth.org.

SELF-REGULATORY REGIMES US GROUPS CREATE WEB SITES DISPLAYING SEALS OF APPROVAL IF EU RULES ARE SATISFIED

Progress made in online data privacy talks

By Louise Kehoe
in San Francisco and
Nancy Dunne in Washington

US and EU negotiators say they have made "substantial progress" in this week's talks in Washington to head off another debilitating trans-Atlantic trade dispute, in this case over online data privacy.

With the US poised to impose duties on EU goods in retaliation for its banana import regime and with

another row looming over hormone-treated beef, the two sides are working hard to make US self-regulatory regimes acceptable under the EU privacy directive.

The two sides will meet again in April with the hope of reaching a deal for the next US-EU summit in June. In an effort to meet EU requirements, companies and US private sector groups are creating web sites which display seals of approval if their consumer data protection

satisfies EU rules. The most rigorous programme was launched this week by Council of Better Business Bureaus (BBB), a US private sector organisation that certifies the ethical standards of its members and mediates in disputes between consumers and businesses.

The "BBB online privacy seal" and a companion programme aimed at web sites designed to attract children examine every aspect of how internet merchants collect,

store and protect consumers' personal data. The scheme goes beyond earlier efforts encouraging online businesses to disclose privacy policies and, in some cases, monitoring compliance.

Companies applying for the BBB seal must complete 140 questions covering issues as wide ranging as employee training on data privacy, computer security measures and third party access to data by business partners such as shipping companies

or advertising agencies. Some 350 online merchants have already begun the application process. One of the first companies to be granted the BBB privacy seal is expected to be Dell Computer, the leading online seller of personal computers.

As well as satisfying the BBB's criteria for approval, online businesses must submit to monitoring and review of their business practices and agree to co-operate with dispute reso-

lution procedures. In a move that could go a long way toward satisfying EU demands, the BBB programme also includes enforcement mechanisms.

Russell Bodoff, chief operating officer of the BBB's new Online subsidiary, said the organisation would publish the names of companies that failed to live up to their promises and refer these cases to US authorities.

Editorial Comment, Page 21

The big place of the banana in a small part of the world

Canute James and James Wilson on what lies at heart of the trade dispute between the US and EU over the Caribbean fruit

Growing bananas in the Caribbean is mostly an uphill battle. It is more than just the steep terrain. The islands themselves are small, and so are the farms. The soil is poor, and then, of course, there are the hurricanes.

The contrast with growing bananas on the large, flat, fertile plantations of Latin America could not be greater.

And that is what lies at the heart of the trade dispute between the US, whose companies own many of those Latin American plantations, and the European Union, some of whose member countries once ruled the Caribbean.

Defenders of the EU's banana trade regime, which gives preferential treatment to the Caribbean, say the region's fruit producers cannot compete unaided against the more price-competitive Latin American fruit.

Production costs in the Windward Islands of the eastern Caribbean - Dominica, Grenada, St Lucia and St Vincent, which are the region's main producers - are about three times that of Latin American producers, says the Caribbean Banana Exporters' Association.

Wages are higher in the

Caribbean and it is more expensive to ship bananas from the Caribbean than from Latin America, says the association, "because of the number of port calls necessary and the absence of economies of scale".

Earnings from bananas are the only source of income for entire communities in the Windward Islands, where there are an estimated 27,000 farms under five acres. The Windward Islands depend on bananas for about 60 per cent of their export earnings, and the industry is important to the stability of the East Caribbean dollar, the strongest currency in the region.

Although other regional producers are less dependent on banana exports, the industry is also socially and economically important. Bananas account for one in every 10 jobs in Belize, and four of every 10 in the economically depressed southern region where farms are concentrated.

Yet in the international market the Caribbean is a marginal producer. In 1997 the five South American producers - Ecuador, Costa Rica, Colombia, Honduras and Guatemala - exported more than 9.3m tons of bananas, compared with

395,000 from Caribbean exporters. And in recent years even sustaining that marginal position in the market has been difficult.

Output from the Windward Islands has fallen by half since 1991, largely as a result of a drought and poor prices which have discouraged farmers. Under the EU import regime, the islands have a quota of 180,000 tonnes a year, but they struggled to export 84,390 tonnes in 1997. Production in St Lucia, the region's biggest producer, fell last year by about 7 per cent, according to the Caribbean Development Bank. Belize's production contracted by 3.4 per cent, while Jamaica's was down 21 per cent.

Latin American producers are far from united in their approach to the dispute. The complaint brought against the EU at the World Trade Organisation was filed by the US jointly with Mexico, Ecuador, Guatemala and Honduras. Panama subsequently filed its own complaint after joining the WTO.

But Costa Rica, the world's second biggest exporter with \$600m of exports in 1998, has stayed on the sidelines, not

Banana exports: the biggest of the bunch



Source: UN Food & Agriculture Organisation

unhappy with current arrangements that give its fruit a good share of the European market. Costa Rica - along with Nicaragua, Colombia and Venezuela - opted to join a framework agreement when the EU regime was introduced in 1983, giving a guaranteed share of the quota for Latin American fruit. Costa Rica was handed 23.4 per cent of the Latin American quota. So it has had little incentive to rock the boat.

Jorge Sauma, the head of Corbana, Costa Rica's banana promotion board, says: "Costa Rica has had a very constant position. We have always been for a free

market. But that did not exist. So for us it was better to have a quota than not have one."

Its current framework quota - which was raised to 25.61 per cent from January - also provides a reassuring support, given high wage and social costs that Mr Sauma says are double the Latin American average.

Panama's exports to the EU slumped 40 per cent between 1992 and 1997 and it would like the EU market opened. Chiquita, the big US company, is by far the dominant producer in Panama, shipping more than 80 per cent of its exports.

Chiquita is also the driv-

ing force in Honduras where it exports around half of the country's bananas. Industry sources say about half of Chiquita's Honduran exports go to Europe.

Dole, the other big producer in Honduras, has always sent the bulk of its fruit to the US and has therefore been only barely affected by the EU regime. Many Central American countries have higher labour costs than other Latin American producers. But yields per hectare are good and the countries are relatively close to the US market.

Additional reporting by Justine Newsome and Paul Solman

NEWS DIGEST

FOUR COUNTRIES FACE THREAT

European steelmakers file anti-dumping complaint

The European Confederation of Iron and Steel Industries, Eurofer, said yesterday it had filed a formal anti-dumping complaint about imports of unalloyed steel from China, India, Romania and Macedonia. The complaint could lead the Commission, the European executive branch, to impose anti-dumping duties on these imports.

The complaint covers imports of heavy plates of unalloyed steel, a flat steel product used in shipbuilding and construction. Eurofer said such imports from the four countries had risen sharply since 1996. "This rise was only possible by dumped prices which were undercutting European prices by up to 41 per cent," Eurofer said. "As a result of these dumped imports, prices on European markets have fallen substantially." The Commission has 45 days to decide whether a formal anti-dumping inquiry is warranted. It would then have up to nine months to complete an inquiry. AP-DJ, Brussels

Steel companies' results, Page 24

GLOBAL TRADE ROUND

Brittan favours all-in talks

Sir Leon Brittan, the European Union's caretaker trade commissioner, said yesterday the EU was prepared to put all its tariffs on the table for negotiation in the next round of global trade talks, due to be launched in December.

"We will not simply put forward a series of carefully selected tariff sectors where we would be prepared to make changes," he said, in a criticism clearly directed at the US. Sir Leon was speaking at a trade and development symposium of the World Trade Organisation in Geneva. Stressing the EU's readiness to see the concerns of poorer nations addressed, Sir Leon said comprehensive negotiations were the only way to remedy what many developing countries believed was the unbalanced result of the previous Uruguay Round. Renato Ruggiero, head of the WTO, said trade liberalisation should be coupled with initiatives for the very poorest countries to prevent their marginalisation in the world economy, including duty-free access for their exports, help in developing trade and debt relief. Frances Williams, Geneva

INTERNATIONAL TREATY

Ship arrest rules adopted

A new international treaty on the arrest of ships has been adopted by nearly 100 governments at a meeting in Geneva organised by the International Maritime Organisation and the United Nations Conference on Trade and Development. The pact sets out conditions under which ships can be arrested as security for maritime claims, while specifying legal safeguards to prevent unjustified action. A revision of the existing 1952 convention was needed to take account of new international rules on maritime liens and mortgages, as well as other changes.

The latest convention lists the claims for which ships can be arrested, sets out the conditions in which a ship may be arrested or another ship arrested for the same claim and, unlike its predecessor, grants jurisdiction to the courts of the country where the arrest was made. Frances Williams, Geneva

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BRITAIN

NORTHERN IRELAND CLINTON, BLAIR AND AHERN CALL ON ALL PARTIES TO SHOW 'MORE COURAGE' TO BREAK DEADLOCK

No arms breakthrough, says Irish PM

FT Reporters in Washington, Dublin and London

Bertie Ahern, prime minister of the Republic of Ireland, said yesterday there was no breakthrough in sight in the dispute about paramilitary weapons despite talks in Washington among republicans and their unionist rivals.

Mr Ahern, with Tony Blair and President Bill Clinton issued a joint statement last night calling on Northern Ireland parties to show "more courage" to break the

deadlock. After two days of intense diplomacy, neither side appeared willing to give ground. After meeting with David Trimble, the Ulster Unionist leader and the region's first minister, Gerry Adams, president of Sinn Féin, political wing of the Irish Republican Army, indicated unionists had hardened their position in seeking what he called "a large event" from the IRA.

Mr Adams said: "David Trimble made it very, very clear what he wants from the IRA, what he describes

as an event. He wants it to encompass a range of armaments through to weaponry and detonators, timing devices and explosives." Mr Trimble's demand, he said, "means our voters, his voters and the voters for all the other parties are now dependent on an organisation - over which I have no influence - doing something which is not part of the Good Friday agreement."

However, Mr Trimble was more positive, describing the meeting as "a good talk". He said: "I was glad to see that

Adams this time was seriously thinking about the issue of decommissioning rather than just repeating his old script. I feel quite optimistic that, in the end, we will overcome this difficulty because there really is no alternative."

Mr Adams urged Mr Trimble to visit the Roman Catholic community in the Upper Bann parliamentary district in the wake of the murder there on Monday of Rosemary Nelson, a local lawyer. Mr Trimble is MP for Upper Bann.

"It would be going a very long way indeed to building confidence, which has been considerably eroded. As first minister, he is not just the leader of the unionist party," Mr Adams said.

Thousands attended Mrs Nelson's funeral yesterday, where her parish priest echoed Sinn Féin's demands for an independent inquiry into her death, to answer her own claims that she had faced death threats from the Royal Ulster Constabulary, the Northern Ireland police force.

A senior RUC officer said: "The investigation is already under way and there will always be a considerable RUC input. We also retain jurisdiction over policing in Northern Ireland."

The police were last night bracing themselves for further trouble after a night of riots in the nationalist areas of Portadown, where members of the Protestant Orange Order are protesting against the ban on their march through a local Roman Catholic housing estate.

'Loyalist' paramilitaries appear divided against themselves

A former member of an anti-republican terrorist group may have been murdered by a rival faction, writes John Murray Brown

Their names are often indistinguishable. Their memberships frequently overlap. As for their motives, they often seem to have less to do with Northern Ireland's political dispute than racketeering and drug dealing.

Anti-republican "loyalist" paramilitary groups appear in increasing disarray, and the tension deepened this week with the murder of Frankie Curry, shot dead in a street off the Shankill Road in Protestant west Belfast.

The explanation for his death probably owes much to rivalry between loyalist factions. Security officials say heavy involvement in organised crime is one reason why the loyalist paramilitaries are so adamant - even more so than the IRA - that there will not be any decommissioning of their arms.

But Mr Curry's killing also reflects a breakdown in discipline, and the political disillusion that has set in with the failure of the main political parties to implement the 1998 peace agreement. David Ervine, chief negotiator for the Progressive Unionist party, the political wing of the banned Ulster Volunteer Force, yesterday said: "We have a responsibility to implement the agreement. I think we are falling in that, and it is showing."

He is often described as the most articulate of the new breed of fringe politi-

cian in the Protestant camp, but unlike Gerry Adams, on the republican side, he has never had total control over his own hardliners.

Mr Curry was a former member of the Red Hand Commandos - a small loyalist terror group not to be confused with the Red Hand Defenders who claimed responsibility for this week's car bomb murder of Rosemary Nelson, the nationalist lawyer.

He had recently been linked with dissidents opposed to the 1998 peace agreement. Indeed, there has been speculation he was a leader of the Red Hand Defenders, who have claimed responsibility for a number of badly executed pipe bomb attacks on Catholic homes as well as the Nelson murder.

Mr Curry's exact affiliations remain unclear. The Red Hand Defenders put out a statement denying Mr Curry was one of its members, but at the same time threatened "military action" against named members of the UVF whom it blamed for his killing.

Gusty Spence, a former UVF commander and an uncle of Mr Curry, said he had received assurances that neither the UVF nor the Red Hand Commandos were involved.

However, John White, a spokesman for the Ulster Democratic party, which is linked with the banned Ulster Defence Association, said: "A lot of people are



Mary McAleese, president of the Republic of Ireland (centre) and David Andrews, foreign affairs minister (right), talk to Paul Nelson (left) after the funeral in Northern Ireland yesterday of his wife Rosemary, whose car was blown up by a bomb on Monday

very angry about his killing. This was a man who committed his whole life to loyalism and the loyalist cause, and he has been killed by his own kind."

Intersecting feuds have long been a part of the loyalist paramilitary story, but there was concern among security officials yesterday that the recent unrest could trigger a wider bloodletting among loyalist groups.

It was all so different back in 1994 when the UVF, UDA and Red Hand Commandos

shared a platform to announce a ceasefire - in response to the IRA's earlier cessation. But loyalism did not speak with one voice for long.

The decision of the UDA and UVF, which would recruit from much the same working class Protestant estates of Belfast and other towns, to maintain separate political identities has not been without its costs.

In the elections for the new power-sharing assembly last June, the Progressive

Unionists secured just two seats while the Ulster Democratic party won none.

Unlike the IRA, which through Sinn Féin, secured 18 seats, the result was a reminder that politicians associated with violence have still to win over the Protestant community.

With even the breakaway Loyalist Volunteer Force on ceasefire to enable its prisoners to benefit from the agreement's early release scheme - the Red Hand Defenders have emerged as the "flag of

convenience" for all those actively opposed to the 1998 peace agreement.

The group's name recalls a mythical Ulster chieftain who, in a race across the sea, cut off his hand, and threw it to shore to claim the land.

Security officials believe the UDA is also feeling the chill because of its lack of a voice in the assembly. This week's solitary consolation for the police was that the Curry murder did not have a republican involvement.

Restaurants are told to identify modified foods

By John Willman and George Parker

Owners of pubs, cafes and restaurants face fines of up to £5,000 (\$8,050) from September if they sell food containing genetically modified ingredients without proper labelling.

The new rules, which will be enforced by municipal authorities, were announced yesterday by Jeff Rooker, food safety minister, who said the UK was the first European Union country to offer consumers who ate out the information to choose whether or not to eat GM foods.

Under the regulations, food outlets which cannot accurately label individual

items that contain GM ingredients must have a statement on menus, blackboards or tickets which says staff can give the information. The owners will have to train staff to provide the information and ensure that they know which foods contain GM soya or maize.

The catering industry said the new rules would be unenforceable and would put an unacceptable burden on food outlets. "Pubs will do their best to give consumers accurate information," the Brewers & Licensed Retailers Association said. "But it could be a nightmare for the smaller business."

And Michael Gottlieb, president of the Restaurant Association and owner of

Smollensky's restaurants, said most of the suppliers did not know whether their products contained GM ingredients. "Either it's safe and it doesn't need a warning or it's unsafe and should be banned."

But Rooker said the government was determined to give consumers a choice - and to cover food eaten out of the home as well as that bought in supermarkets. He expected other EU countries to follow suit.

The new duties of caterers appeared in regulations to enforce EU rules on labelling GM foodstuffs. Mr Rooker said he expected the EU to agree details needed to implement the new rules within the next two months.

Manufacturers protest over energy tax plans

By Kevin Brown, Industry Editor

Manufacturers have protested to the government over proposals in the Budget programme announced 10 days ago for a tax on energy use to help meet Britain's international obligations on climate control.

Ministers are being deluged with complaints that the proposed tax, on which the government is consulting, would amount to a cross-subsidy from hard-pressed manufacturers to the buoyant services sector.

Graham Mackenzie, director general of the Engineering Employers Federation, said yesterday that a proposed tax would damage the

international competitiveness of big engineering companies. Mr Mackenzie called for the impact to be spread.

Intensive energy users are also increasingly worried about the scale of the proposed tax. This remains unclear because the Treasury has not published details of proposals for a lower rate for intensive users.

However, a consultation paper published on the internet by the Customs and Excise suggest that coal and gas prices would need to rise by the equivalent of 0.21p per kilowatt hour, and electricity by 0.6p per kWh to raise the £1.75bn (\$2.81bn) specified by Gordon Brown, the chancellor of the exche-

quer, in the Budget papers. Lisa Waters, economic adviser to the Energy Intensive Users Group, which represents companies such as ICI and BOC, said this would amount to an increase of about 20 per cent in electricity prices and 50 per cent in the cost of gas.

British Steel has put an alternative proposal to ministers under which the government would drop the tax in return for a voluntary commitment to meet emission targets.

Other groups have said that the chancellor's plan to make the fiscal impact neutral by cutting employers' National Insurance contributions would give little help to manufacturing.

Car exports offset drop in domestic demand

By John Griffiths in London

A strong export performance - in spite of sterling's relative strength against the euro - is enabling UK car production to hold up well in the face of a near-halving of domestic demand for new cars in the first two months of the year as a result of changes to the registration plate system.

Car output in February rose by 1.5 per cent, to 148,055, compared with 147,840 in the previous February. This was not enough to compensate for a steep fall in January but has left total output for the year's first two months only 3.1 per cent lower, at 290,901 compared with 300,082 over the same period last year.

Production for export, which accounts for almost two-thirds of the total, rose by 6.6 per cent to 91,682 in February, and by 9.2 per cent to 136,631 over the first two months. In contrast, figures from the Office of

Pound's strength seen as 'striking'

William Butler, an independent economist who sits on the monetary policy committee of the Bank of England, the UK central bank, told the Foreign Press Association in London that the sterling remained strong in the face of sustained cuts in UK interest rates. Richard Adams and Robert Chote write. Though rates were reduced from 7.5 per cent to 5.5 per cent between last October and February, the pound has not moved against other principal currencies on the foreign exchange markets this year.

National Statistics show that output for domestic consumption fell by 8.9 per cent in February to 58,196, and by 19.3 per cent in the first two months to 104,270. The car trade is waiting

anxiously to see if March lives up to its hopes of at least 300,000 registrations as a result of the introduction of a "T" registration plate on March 1.

There are concerns that, if it does not, the decision to swap an annual plate change on August 1 for changes on March 1 and September 1 could backfire on the industry. The aim is to substitute two yearly sales peaks more manageable than the August "bulge", when 500,000 vehicles or more are usually sold. However, the big drop in January and February sales is believed to be due to buyers waiting for the "T" plate. A further drop in July and August would risk leaving full year sales substantially lower than the scheme's advocates might have expected.

Meanwhile production of commercial vehicles was down. February output of 17,582 was 7.5 per cent lower year on year and in the first two months was 7.8 per cent lower at 38,054.

VEHICLE TRADE UK COMPETITION FINDINGS TO BE FED INTO EUROPEAN COMMISSION REVIEW OF MARKET

Inquiry will focus on price disparities

By David Wighton and Sathnam Sanghera in London

However indignant the car industry sounded this week at the announcement of a Monopolies and Mergers Commission investigation into prices of new cars, it could hardly have come as a surprise.

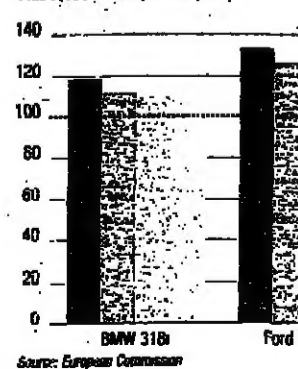
The car industry has been subject to such sustained criticism from regulators, politicians and the media in recent months that the Office of Fair Trading's referral to the MMC seemed inevitable.

The OFT itself has made clear it does not believe the car market is working well and that it has shown little improvement since a critical MMC report in 1992. The car market has also been the focus of a media campaign on the alleged high prices UK consumers pay relative to those in other European countries. Even ministers who are sceptical about the government's encouragement of this campaign believe there is a par-

ticular problem with the car market.

"There is clearly something wrong with car retailing which the authorities need to address," said one. Explaining the OFT's decision, John Bridgeman, director general of fair trading, said there was an "imbalance of power" between manufacturers and dealers that distorted competition. "This is characterised by suppliers' continued refusal to give volume discounts to

dealers which could be passed on to the consumer as lower prices and by other practices designed to exert a strong influence over selling prices," he said. For example, there has been a trend for manufacturers to reduce trade discounts and make up the shortfall for favoured dealers with discretionary bonuses. The OFT said: "These bonuses can be used to put pressure on a dealer to toe the line on prices and not sell vehicles



Source: European Commission

outside their allocated areas." The structure also appears to deter dealers from parallel importing.

Mr Bridgeman said manufacturers were using recommended resale prices to "mask the true selling prices" of vehicles.

"There is evidence that manufacturers and dealers try to reinforce the consumer's belief that the RRP represents the value of the car," he said. It was for the commission to decide whether RRP should be outlawed in the car market, as they have been for electrical goods.

One possible reason for relatively high prices is the treatment of buyers of fleets of cars for companies. Dealers have long complained they are not offered the same volume discounts as fleet purchasers.

Martin O'Neill, chairman of the House of Commons trade and industry committee, which issued a highly critical report on the market in December, said it appeared private buyers were cross-subsidising the

fleet market. "The large discounts they get just seem to have the effect of pushing up prices for private buyers," he said.

Results of the MMC inquiry, which must be completed within nine months, will be fed into a European Commission review of the market next year. This will examine whether to lift the industry's exemption from EU competition rules. These regulations allow cars to be sold only through exclusively franchised dealers in Europe.

The committee's report found there was no justification for the exemption and called for it to be scrapped when it comes up for renewal in 2002.

It was granted primarily as a safety measure - on grounds that cars are potentially dangerous products, requiring specialist after-sales care.

However, the committee found no evidence that franchised dealers provided better service or care than that from independent garages.

NEWS DIGEST

JEWISH NATIONAL FUND

British charity to break links with Israeli body

A leading British Jewish charity is breaking ties with with the Keren Kayemeth LeIsrael-Jewish National Fund (KJL), Israel's most prominent fundraising organisation. JNF UK, the country's third-largest Jewish charity which raised \$8m last year, has donated to Israel through KJL for 90 years. Jerusalem-based KJL owns 17 per cent of Israel's land and has more than 30 overseas offices.

The dispute marks the first time an overseas fundraiser for KJL has divorced itself from the head organisation, and coincides with growing tensions between Israel and diaspora Jewry over religious issues. JNF UK yesterday accused KJL of trying to take it over during a year-long power struggle. "They were trying to turn us into a British chapter of KJL," said Gail Seal, JNF UK president. "If we accepted this, we would be in danger of losing our charitable status in the UK."

In Israel, Shlomo Gravit, KJL chairman, yesterday rejected the charges, and accused JNF UK of "political manipulation" aimed at consolidating control of funds in the UK office. Avi Machlis, Jerusalem

NEW VARIANT CJD

Warning over rate of deaths

Britain's leading researchers into Creutzfeldt-Jakob disease warn today that the UK death rate from new variant CJD - linked to BSE, or "mad cow disease" - seems to be increasing. Writing in *The Lancet*, doctors from the National CJD Surveillance Unit in Edinburgh and the London School of Hygiene and Tropical Medicine report that there were nine deaths from nvCJD in the last quarter of 1998. That is significantly higher than in any previous quarter since nvCJD was first recorded in 1995.

Analysis of the mortality rate until the end of 1998 shows a rising trend, which would be compatible with an epidemic of brain disease starting among people who ate BSE-contaminated beef in the 1980s. But the researchers say it may not become clear for months or even years "whether the apparent increase in deaths towards the end of 1998 was a chance observation or marks a change in the underlying mortality rate". Clive Cookson, London

SCOTCH WHISKY

Asian problems hit sales

Scotch whisky exports dropped sharply last year as the Asian economic turmoil hit sales in the region which had accounted for much of the growth to record levels the previous year. Exports dropped 8 per cent in volume and 15 per cent in value, down from £2.39bn (\$3.84bn) in 1997 to £2.03bn last year. Two-thirds of the fall was in Asia and 30 per cent was in Korea where sales plummeted from £140m to £38m.

Shipments to European Union countries were up 3 per cent, but sales were down in the UK where whisky has been losing ground to other white spirits preferred by younger drinkers, such as vodka and tequila. Shipments to Latin America also fell, with Brazil down 22 per cent - though there were rises in Venezuela and Mexico. In Europe, the strongest growth came from Spain and Sweden, both up 13 per cent. John Willman, London

NOMURA PUB CHAIN

Peace offer in beer dispute

Intreprenuer, the pub chain owned by Nomura International, the Japanese investment bank, has offered peace terms to some 500 licensees in dispute over the terms of their leases. The disputes - over the arrangements that tie the tenants to Intreprenuer for their beer supplies - have dogged the pub chain since its inception. Under the terms on offer, landlords can choose between a range of options ranging from renegotiating their leases on more favourable terms to surrendering them.

Most of the Intreprenuer pubs - inherited from the pub estates of Grand Metropolitan and Foster's, the Australian brewing group - have been sold or spun off into Unique Pub Company. Of the remainder, some 550 have launched actions against Intreprenuer under Article 85 of the Treaty of Rome. John Willman, London

FUEL COST ANGER

Minister to meet hauliers

John Reid, transport minister, is to meet angry hauliers next week to discuss their grievances over rising fuel duties, and to try to avert a prolonged campaign of disruption by truckers on Britain's roads. Aides of Tony Blair, the prime minister, were scathing about a proposed demonstration by truck drivers in London next Monday, and the level of support it was winning from some newspapers. In spite of government denials that British hauliers might move to other countries because of fuel duty rises, ministers are plainly concerned at the strength of feeling in the industry. But the Treasury is resisting any unpicking of the Budget. George Parker and Charles Batchelor, London

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'New deal' for work

Research indicates that employee loyalty could be nurtured by better representation

The American workplace, perhaps like the American marriage experience, is turning into a "series of close relationships governed by the expectation going in that they need to be made to work and yet will inevitably not last". Apparently it is good bye to "Pleasantville" and hello "serial monogamy".

The first part of the bleak message from Professor Peter Cappelli of the Wharton School in his book* on employee management published this week, is familiar enough. The old certainties of secure, lifetime jobs with predictable achievement, internal career advance and stable pay are dead.

This is because companies - mainly under competitive pressures - have introduced "markets inside their organisations". By doing so they have "systematically undermined the complex system of human resource practices that made long-term careers the staple of corporate life".

The resulting "open-ended" employment

relationship is more crudely determined by the arbitrary shifts in power between the supply and demand of workers.

Prof Cappelli is right to point out that there is really little that is new about this. Mostly it represents a return to the employment systems that existed in US and other industrial societies before

Companies have rejected contract of job security in return for trust and loyalty

the arrival of mass production earlier this century.

Companies have apparently abandoned the "elaborate" protections within their workplaces designed to recruit and retain employees. Instead they are once more returning to the use of contingent and short-term

contract workers, outsourcing and compensation linked to organisational performance.

But the emerging employment relationship has brought a unilateral tearing up by management of the so-called psychological contract, "the gentleman's agreement" between companies and all their workers (including managers) where lifetime job security was guaranteed in return for trust, loyalty and adequate performance.

In its place has come what Prof Cappelli describes as the "new deal in the workplace" where market forces ensure instability, uncertainty, inequity and ephemeral relations. Inevitably such change appears to strengthen the position of employers, at least when supply outstrips demand. But as Prof Cappelli shows, it is not without its contradictions.

Companies require more from their employees in commitment at work but they can offer much less in return. Workers need more skills at a time when an employer's ability to fund the necessary training is in decline. The crucial question

for employers is how to motivate and manage in the absence of trust and loyalty.

There can be no return to the lost world of "Pleasantville", not least because employees themselves do not want it. But today the US labour market is tight after almost a decade of growing employment. As a result, many companies cannot afford to dispense with or alienate employees by using hire and fire methods at a time when skilled workers are at a premium.

However, as Prof Cappelli points out, while employers may not have all the power, they continue to control job design, the structure of compensation and delivery of training. This means they are in a position to manage employee commitment, job retention and turnover.

There are no neat solutions to the dilemmas facing management in market-driven employment systems. In Cappelli's view these are "good for efficiency and opportunity and bad for traditional notions of fairness based on concepts of equity". But then he wonders how long this will last.

Under changes in markets, production techniques, and corporate governance we may cycle back to systems where companies shape their employment strategies in response to their internal developments rather than the vagaries of the external labour market.

A forthcoming study** by Richard Freeman at Harvard

University and Joel Rogers from the University of Wisconsin throws some fascinating empirical evidence into the future of the US workplace debate that does point to a possible way forward.

They found - contrary to popular assumptions - that 60 per cent of their sample of 2,400 workers in private companies employing over 25 people, described their existing job as long-term or an opportunity for advancement in the same company. Only 15 per cent regarded their specific work as part of a career or profession that would probably take them to employment in different companies.

Moreover, most employees felt a loyalty to their company with a mere 15 per

Survey suggests that average worker stays with same employer for 15 years

cent saying they had little or no such loyalty at all. The authors also suggest that a worker on average stays with the same employer for 15 years.

This hardly looks as though "new" workplace relations have become a focus for what the economist Robert Kuttner has called "one-night stands" with

companies. Moreover, the Freeman Rogers volume suggests most companies are operating advanced human resource practices with 56 per cent of employees saying their company has some form of employee involvement system.

The authors found no evidence that US workers favour conflict. On the contrary, they want a co-operative approach to relations with their employers. However, they do want more of a say and better representation at work. This is needed to close what Freeman and Rogers call the "representation/participation gap".

But their managers seem far less interested in such a development, perhaps sensing that any reform of workplace governance would adversely affect their own authority.

The key recommendation is to create joint management/employee consultative committees that fall short of traditional collective bargaining but are independent and problem-solving bodies. This may seem hopeless in the present workplace climate, but not impossible.

**The New Deal at Work: Managing the Market-Driven Workforce* by Peter Cappelli, Harvard Business School Press, \$29.95.

***What Workers Want* by Richard Freeman and Joel Rogers, Cornell University Press, to be published this spring.



WORKING BRIEFS

Nearly a third of interim management work part-time

Part-time work carried out by UK interim managers amounts to 30 per cent of the interim management market, according to a report from Russam GMS, the management consultants.

The average daily charge for interim managers is about £450, with London rates 20 per cent higher than the national average and 23 per cent more than two years ago.

The average age of an interim manager is 52 years, with 60 per cent aged between 45 and 55.

Dangers of noise highlighted

Noise at work can lead to occupational deafness so employers need to ensure their employees do not run that risk, according to a survey published this week by the Royal National Institute for Deaf People and the Trades Union Congress.

It found that nearly a quarter of those interviewed said they had to listen to uncomfortably loud sounds for more than four hours a

day at work, and a third said work tasks left them with dullness of hearing. Nearly half said they were concerned that noise levels were affecting their hearing.

As many as 58 per cent of workers at call centres said their hearing was being damaged. The survey found that more than half the employees said they had not received any information or training about noise risks from their employer, and that figure rose to 90 per cent among call centre workers.

Concern over search firms

Just under two-thirds of a sample of City of London corporate financiers and equity and bond market traders believed that executive search companies were "more concerned with closing the deal" than with their own best interests.

Yet the survey, carried out by Wright & Partners, the consultants, found that the vast majority of respondents were satisfied with the "professionalism" of the search companies they had dealt with.

Sixty-five per cent of them believed the firms had "a full or fairly good understanding" of their clients' brief.

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Palestinian National Authority/The World Bank Appointment of Director General for Marketing for the Bethlehem 2000 Project Authority

This is a senior position, responsible for marketing the Bethlehem 2000 Project, a 2-yr. long series of 1st cultural events. The individual will report to the 2000 Project Authority General Coordinator. Specific Responsibilities: Market the 2000 Project and its events to local and international audiences; Negotiate contractual relationships with product and event sponsors, franchisees, concessionaires and advertisers; Encourage and promote private sector investment and investment in the Project and specific events; Advise the Authority on the appropriate terms and conditions of sponsorships, franchisees, concessionaires, sub-contractors, investors, and other forms of investment and participation in the Project and its events.

Qualifications: 10-15 yrs. exp. & demonstrated record of success in handling tourism-related development, marketing, & sales; Specific exp. in mktg. large scale 1st events preferable; High-level negotiation exp. & demonstrated record of organizational & P.R. skills required; MBA, Masters in Economics, or Post. Degree in mktg., tourism or related discipline and; Fluency in Arabic & English, preferably written. Please fax or e-mail CV by Friday, March 26, 1999 to: Mrs J. Sharmar, Arthur Andersen, Fax: (44-171) 304-1134 or E-mail: bna.j.sharmar@us.artsanderson.com For more details, see our website www.aarp.com

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We are currently looking for Analyst/Programmers, DBAs having skills in Oracle & Developer 2000/VB/SQL-server, Active X, Unix/C/C++, VC++, DB2, ADABAS/Natural, Java, RAD, etc. Salary ranges from £20K - £26K, depending upon experience.

Send CV through e-mail at asapan@hotmail.com or by post at 19 Nurter Lane, Wansted, London E11 2BZ.

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Head of Treasury Control

Our Client is the established London Branch of a major European banking group. Expansion over the last five years has enabled the London office to achieve a significant presence in the Treasury, Bond and Repo markets, along with the traditional Corporate and Institutional Banking activities.

The Treasury and Capital Markets areas will see continued expansion in activities and product range, with particular regard to Credit Spread trading (asset and mortgage-backed), Proprietary FX Options trading and strategic proprietary trading in IR Options and second generation derivatives.

This role will report directly to senior management in London, whilst also working closely with the Head Office Markets Risk Management team. Responsibilities will encompass the management of both risk monitoring and product control. This will specifically involve the development and implementation of internal risk & control practices, analysis & evaluation of new products & strategies, systems enhancements and the ongoing development of risk analysis procedures.

The successful candidate will possess a strong academic background (master's degree and/or qualified accountant), proven management experience along with a sound knowledge of treasury and capital markets products, in particular FX/IR Options and asset-backed & mortgage-backed securities. Knowledge of VAR and CAD techniques and calculations and a strong computer literacy essential.

Please contact Tara Ricks at the address below or by email tararicks@joslinrowe.co.uk

Joslin Rowe Associates Ltd, Bell Court House, 11 Blomfield Street, London EC2M 7AY

Tel 0171 638 5286 Fax 0171 382 9417

Email: banking@joslinrowe.co.uk Website: http://www.joslinrowe.co.uk

London - Edinburgh

A Member of the Blomfield Group

DIRECTOR OF SALES, EUROPE

Based in London, individual will direct European marketing and sales efforts. Requirements include a minimum of 4 years experience managing an international field sales team; thorough knowledge of the European pharmaceutical industry; experience in the drug development process (both clinical and non-clinical); a proven track record of successfully developing and implementing marketing & sales plans and budgets; and experience in developing and implementing a reporting structure with accountability for results. Qualifications include BS/MS; advanced scientific degree or MBA a plus. Must be fluent in English.

AAI offers a competitive salary and a comprehensive benefits package. Please submit resume with salary requirements in strict confidence to: AAI, Human Resources, 1206 N. 22nd Street, Wilmington, NC, 28405, Fax: US (910) 382-2350. Email: Career@AAIINTL.com. AAI is an Equal Opportunity/Affirmative Action Employer-M/F/D/V.



IATA is the trade association of the world's scheduled airlines.

IATA Distribution Services (IDS) has been established to centrally manage the world-wide IATA Settlement Systems which serve airlines and other sectors of the travel and transportation industry. Operating in 120 countries, with 50,000 travel agents and 350 airlines connected to the system, IATA Settlement Systems cleared c.USD130 Billion in 1998. IDS has an opening in Geneva for an:

Assistant Director - Financial Services

Reporting to the Director Finance, IDS, the Assistant Director - Financial Services will be responsible for re-engineering, implementing and managing the banking services to secure efficient, high performance systems for the settlement of airlines' world-wide sales funds.

Requirements

- Degree in a financial discipline and minimum 5-10 years' experience in international cash management and treasury function at a senior level;
- Self-starter with a track record of establishing, re-engineering and managing international banking and cash management facilities;
- Strong negotiation, planning and project management skills;
- Experience and sound knowledge of air transport industry will be an advantage;
- Team player with strong communication & leadership skills

Highly motivated candidates who feel they can meet the challenges of this international, high profile position in the airline industry are invited to send a full application to:

Senior Manager, Human Resources, Europe, Middle East & Africa, IATA Geneva, Route de l'Aéroport, PO Box 416, CH-1215 Geneva, Switzerland (Confidential Fax No. +41 (22) 799 2629).

ACCOUNTANCY APPOINTMENTS

Financial Controller - Package to £60k - London

A big start-up. A giant parent. A great impression to make.

Telecom Ireland Ltd is a brand new telecoms provider in the UK market-place. Owned by Dublin-based Telecom Eircom, which currently has revenues of £1.2 billion, we aim to increase that figure significantly.

When you join our management team, we'll expect you to share the excitement and challenge of taking a new business forward from its earliest stages. You will implement new systems and processes and ensure that they are maintained, giving you ultimate responsibility for the finance function. It begins with full accountability for the first year's spend, balanced by hands-on involvement in producing monthly accounts, budgeting, forecasting and ensuring reporting processes are adhered to.

You should be a chartered accountant with post-qualification experience as a Financial Controller in either the subsidiary of a large company or a small to medium-sized business. We'll look to you to demonstrate the fact that you've already had full control of the finance function. You'll also need to be a strong, credible character, and more than capable of interacting with other management team members who are equally determined to see the organisation succeed.

As you'll be reporting directly to the Chief Executive, your profile will be high and, from the beginning, you'll have true opportunities to influence our growth. Add to that the invaluable experience you're going to

gain, and it's an ideal career move for someone whose ambition matches their talent.

To apply, call Jonathan Cohen on 0171 550 1000, e-mail him at jonathan_c@corpex.co.uk, or write to him at Corporate Executive Selection, 7 Savoy Court, Strand, London WC2R 0EZ.



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The sunshine state is offering the hottest prospects for international audit professionals. Our client, a US \$4.6 billion Fortune 500 industrial company has operations around the world, but it's their Woodland Hills headquarters, in one of the most attractive areas of California, that presents the brightest proposition for the two Chartered Accountants they are keen to recruit.

You'll conduct acquisition and divestiture reviews, together with audits of operations spanning industry sectors including commercial, marine, defence and information technology. Working closely with all levels of management, you will also evaluate and improve operating procedures. You'll spend around 40% of your time travelling throughout the USA, but you'll be home virtually every weekend.

Your one to four years' PQE following your ACA will have been gained within a major audit practice, preferably one of the Big Five, either in London or one

of the larger regional offices. It's important that you have the international mindset, capacity for lateral thought and the advanced interpersonal skills required to propose workable solutions and defend your recommendations in culturally diverse environments.

You'll find that Corporate Audit presents a first-class training ground for long-term career enhancement, and success here will present many on-going opportunities to move on to other roles within the corporation. In addition to an attractive salary, you will enjoy relocation assistance which will cover visas and work permits.

Interested applicants should apply to Robert Macmillan stating current remuneration and quoting reference number UKR110555 at Nicholson International (Search & Selection Consultants), Bracton House, 34-36 High Holborn, London WC1V 6AS. Alternatively, fax your CV on 0171 404 8128, or e-mail: vanessa_jonas@nicholsonintl.com

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Financial Controller

Europe, Middle East, Africa



Faulding is a global healthcare and pharmaceutical company with total annual revenues of approximately AUD\$1.9 billion and representation in over 70 countries. Faulding develops, manufactures, distributes and markets a wide range of pharmaceutical and healthcare products and services. The Europe, Middle East and Africa region is one of dynamic growth and exceptional future opportunity. As such it represents a key element of Faulding's future development strategy. The E.M.E.A. Head Office based in Warwickshire now seeks to appoint a high profile Financial Controller to support the Financial Director in both consolidating and driving forward the growth of this region.

Warwickshire

c £40,000 + Benefits

The Role

Working closely with the Country Managers and corporate financial group as a key member of the finance team, responsibilities will include:

- Statutory account preparation and consolidations.
- Financial and management accounting.
- Budgeting and forecasting.
- Tax, treasury and foreign currency transactions.
- Lead and develop a finance team to serve the changing needs of the business and the information demands of the Australian parent company.
- Provision of additional project based and analytical support relating to acquisitions, integration and business development.

The Profile

A qualified accountant with at least three years post qualification experience preferably gained in an

international or pharmaceutical based industry, you will possess:

- The drive to make a positive difference to the development of the business.
- The ability to balance between a hands-on approach to get things right the first time and the flexibility to motivate a team to serve the changing needs of a rapidly expanding and dynamic organisation.
- The technical experience to run a Head Office function in the absence of the Finance Director.
- First class communication and presentation skills in order to operate and influence at all levels within the business.

Candidates should forward a CV, including details of current remuneration to Trevor Dimmock at Michael Page Finance, The Citadel, 190 Corporation Street, Birmingham B4 6DD. Tel 0121 625 3380, please quote ref 497781. e-mail: trevordimmock@michaelpage.com

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Financial Controller

East Anglia

to £45,000 + Car + Bonus

Our client is a £100 million turnover subsidiary of a broad based international PLC operating in the FMCG sector.

The business is involved in the manufacture and marketing of a range of branded and own label products which are retailed through major multiples and independent channels.

Following a re-organisation, the company now wishes to appoint a young dynamic accountant to take full responsibility for the finances of the business both in terms of day-to-day control but also from the viewpoint of adding value to the operation.

The successful candidate will be a qualified accountant probably in their 30s who has gained experience in industry preferably in a manufacturing or FMCG environment.

Candidates must display the ability to communicate at all levels across the business as significant exposure to non-financial management will be a key feature of the role.

As the business is continuing to develop, the candidate must display the potential to take on additional responsibilities in both the short and medium term.

The role represents an excellent opportunity to join a high profile organisation at an exciting stage of its development and to gain exposure to all aspects of a dynamic and fast moving business.

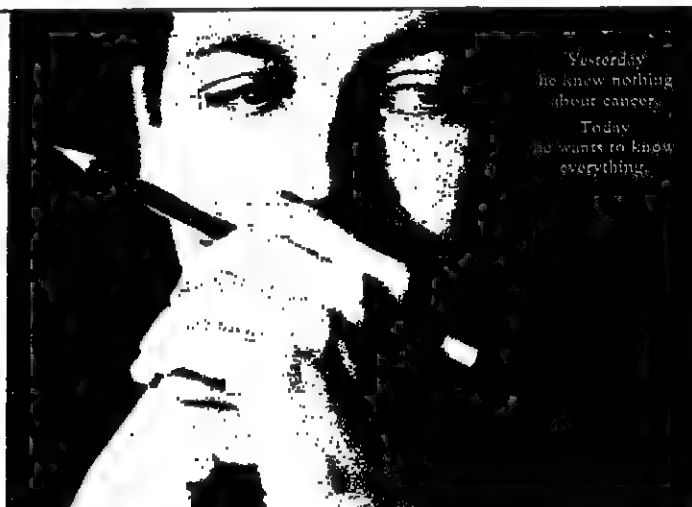
Interested candidates should apply to Ian Leech ACMA at Michael Page Finance, 4-8 Regent Street, Nottingham NG1 5BQ. Telephone 0115 948 3490, fax 0115 941 0125. Please quote reference 498059. e-mail: ianleech@michaelpage.com

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Internal Auditor

SW London

Circa £33,000

Imagine a time when every person in the land has equal and ready access to the best information, treatment and care for cancer and where unnecessary levels of fear are set aside. Macmillan Cancer Relief dedicates itself to working with others to turn this vision into everyone's reality.

With an annual gross income of approximately £33 million, Macmillan Cancer Relief is one of the UK's most high profile and successful charities. An exciting opportunity exists to make a significant contribution to an innovative, proactive and influential charity.

The Role

Vital to the charity's development, this is the only non-director role within Macmillan with organisational independence and regular access to the Board of Trustees. In this role, you will provide a comprehensive internal audit service to both Senior Management and the Board in order to evaluate the effectiveness of the charity's internal controls and processes. The post will report directly to the Audit Committee and have day-to-day liaison with the Director of Finance. The role is vital in assisting the management of the charity by recommending improvements to cost effectiveness and performance.

The Candidate - you will be:

- responsible for working with management to improve processes and controls, and must possess the ability to see the management perspective.
- an excellent and diplomatic communicator who has strong analytical skills and business acumen, with an enthusiasm for Board level exposure.
- highly self-motivated and able to work without supervision.
- a member of one of the professional accounting bodies with practical experience of conducting both financial and non-financial audit assignments.

Interested candidates should send a CV to David Morgan at Michael Page Finance, Page House, 39-41 Parker Street, London, WC2B 5LN, telephone 0171 269 2384, fax 0171 831 6243 or e-mail: davidmorgan@michaelpage.com

Macmillan
cancer relief

Registered Charity Number 261017

Mosaic

European Financial Controller

The Mosaic Group Europe, a subsidiary of a Canadian public company, is a market leader in the provision of sales and marketing services to clients with major brands in sectors ranging from telecommunications to travel and leisure, food and drink to consumer electronics, financial services and healthcare. As an established and expanding business that already possesses a significant presence in the marketplace, the company operates from a position of considerable strength.

Thame, Oxon

£55,000 + 20% Bonus + Car + Bens

Due to a dynamic European growth strategy, an opportunity has arisen for an experienced finance professional reporting directly to the European CEO. Responsibilities will include:

- Overall financial control for a fast growing European operation.
- Involvement in developing pan-European strategic operating plans.
- Providing financial support and analysis for mergers and acquisitions both in the UK and continental Europe.
- Overseeing European reporting to the Canadian head office.

The successful candidate will be a qualified accountant with a minimum of three years post qualification experience, a strong academic background and an outstanding record of achievement to date. You must

possess strong technical and management skills, ideally have experience working in an international environment and be familiar with North American GAAP.

Most importantly, the successful candidate must be able to demonstrate the flair, stamina and ability needed to support a fast moving, acquisitive company.

It would be a distinct advantage for candidates to have a working knowledge of a second European language.

Interested candidates should write, enclosing a full curriculum vitae, current salary details and daytime telephone number to Christopher Pereira ACMA at Michael Page Finance, 40-42 High Street, Maidenhead, Berkshire SL6 1QE. Telephone 01628 771604 or fax 01628 785495. Please quote reference 497584. e-mail: christopherpereira@michaelpage.com

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TransNet Communications BV is an exciting international multi-level marketing company with its sights firmly set on rapid growth in the £200-million communications industry. TNC specialise in the provision of low cost telephony services and innovative communication technology products that can increase the speed of communications via text, voice and real-time visual. TNC currently operates in The Netherlands, Belgium, Germany and Great Britain with an on-going pan-European expansion programme, which will add eight additional markets over the next 12 months. Sales of TNC products and services are co-ordinated through an International Call Centre at their headquarters in Amsterdam. TNC now seeks to recruit a high calibre, results driven, key financial player to fill the position of Chief Financial Officer. Reporting to the Board, the successful candidate will be a senior member of the TNC's corporate management team assisting in the development of corporate strategy and advising on financial policy, financial management and the development of corporate business plan. The CFO will be expected to play a significant role in an anticipated IPO.

Chief Financial Officer

Amsterdam

circa Dfl. 250,000

Tasks and responsibilities:

- Responsible for all aspects of the company's financial policy and strategy.
- Establish sound financial controls and procedures.
- Contribute to the development of the company's European business strategy.
- Responsible for budgets, forecasts, periodic and statutory reports, planning and control procedures and policies, treasury and the remote control of all European subsidiaries.
- Optimize the impact of international tax legislation and cross border tax advantages.
- Participate in the banking and investor relationship network.

Profile of the suitable candidate:

- Qualified accountant with proven track record at a senior level, within an international environment.

- Excellent communication skills combined with the ability to analyse and interpret information effectively.
- Energetic, proactive people manager with a high level of personal integrity.
- Fluent in English, both written and verbal, another European language an asset.
- Previous experience in evaluating and implementing supporting IT systems and packages would be an advantage.
- Previous experience in IPO's and/or taking companies public is required.

If you are interested in this outstanding opportunity, please send a comprehensive curriculum vitae with accompanying letter (in English) to Erik van Kooten at Michael Page International, World Trade Center, Strawinskylaan 1057, 1077 XX Amsterdam, The Netherlands, quoting reference EK/56642. Telephone 020-5789444. e-mail: erikvanKooten@michaelpage.com

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Finance Managers

Our client is a leading European household name with an outstanding record of penetration into its desired UK market. Demonstrating an innovative and refreshing style, the organisation will continue to expand considerably in the short, medium and long term adding significantly to its UK turnover of over £400 million.

London SW

£ Excellent

During the current climate of caution and consolidation, this leading force is set to 'break the mould' and become one of the UK's most prominent organisations.

This growth has created challenging and varied senior management roles covering a number of business areas. Although the core systems and staff are in place, the business is now at a critical stage and requires a stronger, enhanced finance function, thus providing a great deal of scope for personal development and achievement.

Applications are invited from ambitious ACAs who possess the following:

- Proven man-management skills combined with the ability to drive changes forward whilst taking an objective view as appropriate.
- 2-4 years post qualified experience, ideally gained within a commercial environment.
- The vision and flexibility to add value and progress within a rapidly changing company.

If you have the necessary qualities and would like to gain further information on this challenging opportunity, please write to Elizabeth Ewen at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Telephone 0171 269 2340, quoting reference 496922. e-mail: elizabethewen@michaelpage.com

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SENIOR BUSINESS AUDITOR

AMSTERDAM

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Your main responsibilities will include:

- business risk assessment
- analysis of business and financial processes

- analysis of target setting and performance measuring processes
- approval of financial and business controls
- reviewing and improving policies and procedures
- due diligence reviews and acquisition reports
- liaison with senior financial and operational management

The successful candidate will be a qualified ACA/CMA/IMA/FA/AC with five to seven years' relevant experience gained working in a (US) multinational preferably in the FMCG industry and/or the Big Five. Strong presentation, analytical and communication skills in combination with leadership, drive for results and a 'helicopter view' are essential for this high profile role. The

candidate will be effective in managing projects, a team player and have strong client focus. The business language is English but fluency in more European languages is preferred. International career development opportunities are excellent for high calibre candidates.

If you are interested in this opportunity, please contact Elisabeth M.M. Huigen on +3120 644 695, or alternatively send your Curriculum Vitae to: Robert Walters Associates, 'Bijlvesters', Amstelstraat 166, 1079 LH Amsterdam, The Netherlands. Fax: +3120 6429 805 Email: elisabeth.huigen@robertwalters.com Web: <http://www.robertwalters.com>

You may also apply via http://saga.com/Robert_Walters quoting reference RWN101.

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Finance Director

Rare and stretching opportunity for a mobile and ambitious finance professional to join an established leading player in the life sciences outsourcing sector with the significant backing of a major private equity business. Demanding remit supporting the Chairman and CEO in establishing appropriate controls and disciplines, contributing to the general management of the UK and US operations and preparing for an IPO in the medium term.

THE ROLE

- Key member of the Executive board with responsibility for financial management and control, forecasting, cash management and planning supported by established finance teams in the UK and US.

- Create and implement effective cost control methodologies and establish robust financial control and forecasting processes to ensure focused and useful management information is created to support the business managers.

- Develop relationships with the primary investors and in due course prepare and lead a flotation, probably in the US.

THE QUALIFICATIONS

- Bright, pragmatic and flexible graduate Accountant with at least five years' financial management and control experience at senior management level from a fast-moving service business or a blue-chip manufacturing operation with a reputation for innovative product development.

- First-class financial analysis and modelling skills with the tenacity and resourcefulness to produce effective forecasting processes. Exposure to broad areas of corporate finance, particularly investor relations and listings highly advantageous.

- Excellent leadership and communication skills. Must have operated previously in a transatlantic business and be able to undertake substantial travel.

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Group Finance Director

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THE ROLE

- Working with the Chief Executive in setting the strategy and managing corporate development activity including identifying and funding acquisitions.

- Building on strong, established City contacts. Ensuring first-class support from all third party advisors and maintaining and developing the company's City profile.

- Working alongside the Company Secretary and operational finance team to deliver tight financial management and cash control.

THE QUALIFICATIONS

- Ambitious and tenacious Graduate Accountant, with at least ten years' commercial plc experience and a significant corporate development background, either as an advisor or as a principal.

- Disciplined and rigorous analyst, capable of critiquing complex business proposals and allocating resources effectively.

- Robust and down-to-earth team player with excellent communication skills and comfortable in a highly entrepreneurial environment.

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Selector Europe, Ref. TSB/29837-3/39,
18 Cornhill Place,
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Manufacturing & Distribution

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Ipswich

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THE COMPANY

- New business-to-business group: one manufacturing and two third-party sales and service operations. Combined turnover £28m. 300 employees.
- Formerly separate companies within a conglomerate.
- Seeks synergies and growth to deliver investment return.

THE POSITION

- Full responsibility for creating group accounts and administrative function. Report to CEO and assist development and implementation of business strategy.
- Key tasks: develop new IT system; improve management accounting; maintain tight control on working capital; manage relations with bank, investors and professional advisors.

- Advice on tax planning and potential acquisitions. Contribute to margin improvement and customer service.

QUALIFICATIONS

- Qualified accountant, 10-15 years' PQE in manufacturing/distributor environment. Hands on record of IT systems development.

- M&A and investment experience. Participation in previous MBO/MBI useful.

- Excellent interpersonal skills and "can-do" attitude. Able to contribute to strategic leadership of company.

Please send full cv, stating salary, ref LG291464FT, to NBS, 54 Jermyn Street, London SW1Y 6LX
Fax 0171 491 0447 Email charlottam@nbs-selection.co.uk Tel 0171 529 1750

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Manager of Finance and Control

Our client is an international player in plastics production for the environmental sector. They are moving their European headquarters to London as part of a strategy for renewal, growth and geographical expansion. Annual T/O of 25 Million Euro is expected to grow substantially in the coming years. We are searching for a candidate, with the skills and experiences to assume responsibility for finance, administration and control.

Ideally, you will be an accountant with experience gained in companies selling and sourcing products internationally. As the chief company controller your initial challenge will be to develop and implement - almost from ground zero - control and reporting procedures for the group. You will assume full responsibility for financial and management reporting and

consolidating, treasury, budgets set up and follow up. Other responsibilities will include compliance with all statutory requirements, insurance and legal entities.

Preferably degree qualified you will have experience in dealing with multi-cultural and multi-national environments. Developing relationships with local accountants, bankers and tax authorities is essential. Whilst you will be able to outsource the services for local accountants in each location, there is a need for detailed work and hands-on practices. Experience in acquisition and due diligence is an advantage but not a prerequisite. You are also expected to have the will and ability to assist and complement operational management in co-ordination with the general manager. Excellent IT skills are essential with French and/or German language skills a

definite advantage. The position will require frequent travel within Europe.

A generous package, including salary, bonus, and benefits, is available to attract the right individual. We offer a very open and dynamic working environment, together with a strongly focussed management team. The successful candidate will have a superb opportunity to grow with the company and participate in shaping its future. If you believe you can meet our client's requirements and are looking for a challenge, please write in confidence, enclosing an up to date CV and giving current remuneration details to:

Ref: 2008
Thomas King
Kienbaum Executive Consultants
1 Marylebone High Street
London W1M 4DL
Tel: 0171 298 5500
Fax: 0171 298 5555
Email: thomas.king@kienbaum.de

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FINANCIAL CONTROLLERS

- This company is a \$6bn US-quoted industrial group, manufacturing and marketing a wide range of capital equipment. Many of its products have established market leadership with a top three position in Europe, North America or the Asia Pacific Rim.

- The Controllers are part of a new international executive team, responsible for evaluating financial and management information and for recommending and implementing actions, to achieve and maintain competitive advantage in a dynamic and exciting marketplace.

- You may be a qualified accountant or a controller with extensive international experience gained in a "blue chip" global manufacturing environment. Key skills include financial analysis, business planning, management reporting coupled with the ability to influence management and drive through change.

- Familiarity with standard financial, database and spreadsheet packages is essential. Knowledge of or the willingness to learn French, Italian, Spanish or Portuguese is a distinct advantage.

- Prospects of building an international career are excellent. Applications from outside the UK are welcome.

Please send your CV, quoting current remuneration and ref. 2405 to:
Stephen Newman, Theaker Monroe & Newman, Hill House, 67-71 Leaveland Road,
Harrow, Middlesex. HA1 3EQ (fax 0181 423 4203/email: snewman@intersearch.org).
All replies will be handled in strict confidence.

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A consultancy of enormous global power and promise, PricewaterhouseCoopers operates in an environment of continuous and rapid change. Nowhere is that more true than in our Financial Advisory Services Division.

We are strengthening our presence still further in the emerging markets of Central Europe. Our teams provide financial advisory services to governments and the private sector within Central Europe, particularly Poland, Hungary, the Czech Republic and the Balkan region. Their advice is pivotal to the restructuring of industries and businesses in each country.

For you, it means broad exposure to the most complex privatisation projects, M&A advisory work and high profile corporate transactions. You'll also benefit from first-class professional training and fast track career progression based purely on your performance.

To join us, you will need to be a self-starter with a strong academic record, an ACA/ACCA/ MBA or similar qualification, plus at least 2 years' experience that demonstrates your commitment to and interest in the region. We will also be looking for local contacts and language skills, a talent for communication and a current and detailed knowledge of particular regional markets. In addition, transaction experience will be key and you should be willing to travel and work overseas whether short or long term.

You can expect a salary and benefits package that reflects your experience and qualifications. More importantly, there will be every opportunity for you to progress.

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To apply, please send a comprehensive CV, to Sarah MacGregor, HR Manager, PricewaterhouseCoopers, Plumtree Court, Leinster Plaza, Dublin 15.

PricewaterhouseCoopers is a member of the PwC network of member firms of the worldwide PricewaterhouseCoopers organisation. PricewaterhouseCoopers is a member of the Institute of Chartered Accountants in Ireland and holds a licence to carry out investment business.

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Accountancy Appointments every Thursday in the FT. Includes Tax Specialists, Analysts and Finance Directors.

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HEAD OF TAX – EUROPE

INTERNATIONAL FINANCIAL SERVICES GROUP

LONDON

- The company is one of the world's leading financial services groups. It is highly profitable and has grown internationally through acquisition. Previously structured on a geographical basis, it is now transforming itself into a global company organised on product lines.
- The European business employs c.14,000 people and has activities in retail and wholesale banking, insurance, credit cards and asset finance. Its future strategy is aggressively to grow income, while maintaining a strong focus on costs.
- With a team of eight, the Head of Tax will support all European businesses, each of which has a different culture and priorities. Responsibilities will range from development of policy, reporting and compliance through to implementation of tax planning opportunities for both Europe and the Group.

Please apply in writing quoting reference 810977 with full career and salary details to:
Jayne Totty, Whitehead Mann
11 Hill Street, London W1X 8BB
Tel: 0171 290 2014 Fax: 0171 290 2950
Email: jayne.totty@stanup.com
www.whiteheadmann.co.uk

SIX FIGURE PACKAGE

- An important element of the role will be to build strong relationships with the business managers to ensure that tax considerations are included at an early stage in the planning cycle and add to shareholder value.
- Graduate, a qualified accountant/ATL, candidates will have a minimum of five years post qualifying tax experience with a major accountancy firm, Inland Revenue or corporate. Knowledge of banking and/or broader financial services is preferable.
- Candidates must have first class presentation and communication skills, and be able to work in complex multi-national group. They must demonstrate energy, initiative and a record of delivering solutions in a commercial environment.

Whitehead
SELECTION

FINANCE DIRECTOR – INDIA

LEADING MULTINATIONAL – ENERGY MARKET

MUMBAI

A SIX FIGURE PACKAGE

- This major 5 multi-billion plc is recognised globally for its innovative and leading-edge approach as it has moved swiftly to develop its business in the energy sector around the world.
- Within India its operations have been built on strong local partner relationships and have grown dramatically to become its premier business outside Europe.
- As the business matures and with future planned investments, they are looking to reinforce their top team through this appointment. The role reports directly to the Country General Manager and functionally to the International Finance Director. Success in this role offers significant career prospects.
- Working closely with the Country General Manager, you will provide a full functional and analytical support service, and be intimately involved in the strategic direction and

operational management of the business. Key tasks include: continuing to build a commercially driven and proactive finance function, and significant treasury management and relationship building with local banks.

• Candidates will be graduate qualified accountants, with a proven international track record at senior level. This will have been gained within a progressive and demanding international organization within the construction, power generation, oil and gas, manufacturing or other related sectors. Treasury management experience would be a considerable advantage.

• Presence, ability to build credibility quickly and develop relationships at all levels are prerequisites. Candidates will be highly commercial and proactive with a customer service ethos. They will ideally have worked and lived in India.

Please apply in writing quoting reference 810777 with full career and salary details to:
Jayne Totty, Whitehead Mann
11 Hill Street, London W1X 8BB
Tel: +44 (0) 121 290 2014 Fax: +44 (0) 121 290 2950
Email: jayne.totty@stanup.com
www.whiteheadmann.co.uk

Whitehead
SELECTION

Divisional Financial Controller

Manufacturing - £85,000 plus bonus & executive package

kmc international
search & selection

The client company is a £500 million international manufacturing group. As a part of a continuing exercise to improve the strength of the management team, the company now requires a financial controller to develop and manage the finance function of a key £150 million division with operations across Europe and in the US. Candidates will have some years of operational experience in a manufacturing environment, and be able to demonstrate an ability both to drive profitability and cash generation, and to lead a programme to upgrade management information systems. Good professional qualifications are important, but even more so are a strong character, personal integrity, good communications skills and commercial judgement. Candidates may be of any nationality, but they must be fluent in English. Further language skills would be valuable. The divisional offices are based in the south of England, but this position will involve a considerable amount of international travel. The group offers excellent opportunities for employees with the right skills and ambition.

Applications with full CVs should be sent to David Binney at kmc international search and selection, 7 Old Park Lane, London W1Y 3LJ.

Speculate and accumulate.

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VISION EXPRESS

Responsable du

"Business analysis"

Nottingham

£45,000 à 250,000
+ voiture

La Société
Vision Express est l'un des distributeurs Optique leader en Grande-Bretagne. Avec 100 magasins en propre et 50 magasins en Joint Venture et un chiffre d'affaires dépassant 150 millions de livres. La Société est une filiale de GrandVision, société française cotée en Bourse qui possède au total 800 magasins à travers l'Europe, les pays d'Europe de l'Est et l'Amérique du Sud.

La mission
Nous recherchons à nommer un responsable du "Business analysis" qui rapportera directement au Directeur Général. Sa mission première sera de diriger une équipe de 5 personnes, chargée du "Business analysis" pour la société britannique, qui inclut le contrôle des magasins, l'analyse de retour sur investissement, les indicateurs clés de performance et l'analyse commerciale. Sa seconde responsabilité sera de s'efforcer de mener à bien le reporting en lien étroit avec le Siège français du Groupe. Cette équipe travaille aux côtés de la Direction opérationnelle britannique et de la Direction du Contrôle de Gestion au niveau du Groupe.

Les exigences
Parfaitement bilingue anglais français. Diplôme d'expertise comptable ou Ecole de Commerce (avec spécialisation comptable et financière), complété éventuellement par un MBA (pas essentiel). Excellentes connaissances des normes comptables françaises et anglo-saxonnes. Une expérience dans un groupe français et dans la distribution serait un avantage. Bonnes compétences analytiques combinées avec la pratique de tableaux et de bases de données. Une bonne capacité d'adaptation et des aptitudes à convaincre. L'aptitude à bâtir et à mener une équipe. Enfin capable d'apporter une contribution stratégique et de s'impliquer dans un environnement de travail opérationnel et peu hiérarchique.

L'avenir
C'est une bonne opportunité d'avoir un rôle clé dans un Groupe international coté en Bourse connaissant une expansion rapide, avec possibilité de progression internationale en terme de carrière.

Merci d'adresser un CV en anglais en précisant le salaire souhaité à Paul Macildowie à l'adresse suivante:
Macildowie Associates, Rodney House,
Castle Gate, Nottingham, NG1 7AH, United Kingdom.
email: paulm@macildowie.co.uk

Macildowie
SPECIALISTS IN FINANCIAL RECRUITMENT

Head of Internal Audit Fund Management

London

£ Excellent

Our client is one of the City's most innovative fund managers currently managing funds in excess of £26bn on behalf of a diverse portfolio of clients including major institutions, banks, charities and pension funds as well as private individuals. With a diverse portfolio of products and services, the organisation is today a pioneer in international investment with an established presence in venture capital and continuing growth in emerging markets. An exceptional opportunity has now arisen for an experienced accountant to join this major financial institution to lead and develop a risk based Internal Audit function.

THE ROLE
Managing and developing a high calibre team, this is a rare opportunity for the successful applicant to take a proactive role in shaping the future of this global organisation. Acting as an internal consultant, supporting senior management, you will immediately assume responsibility for reviewing

all aspects of the business including procedures and controls, with a strong focus on implementing change and raising risk awareness throughout the company.

THE CANDIDATE
The ideal candidate will be an ambitious ACA with a strong record of achievement to date. Experience of risk-based audit techniques gained from a fund management or investment banking organisation or the financial services team of a Top 5 accountancy firm would be desirable.

Applicants must possess drive, ambition, strong interpersonal skills and the ability to liaise effectively at senior levels. Candidates must also be adaptable, creative and able to initiate and manage change. The rewards will include a competitive remuneration package, coupled with the opportunity to contribute to the successful development of a leading fund management group.

Applicants should forward a CV in strict confidence, to Guy Townsend, Julian Usher or Caroline Hauswirth at Walker Hamill Executive Selection, quoting reference CH5519. Alternatively, immediate enquiries may be made to Caroline Hauswirth on 0171 839 4444, or via email: chauswirth@walker-hamill.co.uk

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FINANCE DIRECTOR

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LONDON & CAPITAL

Investment Account Executive

Package commensurate with experience

- London & Capital, the independent international investment advisors, have a vacancy as a result of expansion for a dynamic individual to join its team providing quality investment advice and servicing to international private clients.
- Working in conjunction with the Directors of the business you will be responsible for sourcing and servicing US and South African clients.
- Candidates should be Chartered Accountants with wide experience of international, especially South African, investor requirements. In depth knowledge of South African and US tax is also essential, as well as an extensive existing network of professional US and South African contacts and clients.

Please send CVs to: Personnel Dept., London and Capital plc
15 Berners Street, London W1P 3DE



FINANCE DIRECTOR ST CHRISTOPHER'S HOSPICE S.E. LONDON £50,000 per annum

St Christopher's is a charity providing skilled medical and nursing care for people with cancer and other serious illnesses, and support for their families and friends through their illness and into bereavement.

We are now able to provide an exciting opportunity to work closely with the Chief Executive to enhance our business performance, growth and development.

Fundamental to the success of the role will be the ability to deliver strategic and operational financial management.

You will have to:

- Ensure that appropriate financial policies/frameworks are in place to guide our financial decision making
- Contribute, as part of our management team, to the preparation of strategic plans including annual budgets and forecasts
- Plan and manage cash flow and advise and challenge business assumptions/plans to maximise benefit to the organisation.

Ideally with an excellent track record of financial management experience preferably gained over the last 10 years in healthcare charities, the successful candidate will be:

- able to function effectively as a key member of the senior management team
- thoroughly familiar with business management theory and practices relating to financial management
- able to accurately analyse complex financial and accounting data and to communicate that data to a wide variety of professionals effectively.

For an informal discussion please contact Robert Dunlop, Chief Executive or Chris Clark, Director of Development.

For an information pack please contact the Personnel Office, 51-59 Laverick Park Road, Sydenham, London SE26 6DZ. Tel: 0181 778 9252 ext 305.

Closing date: Tuesday, 6th April 1999

Registered Charity No: 210667

Working towards equal opportunities

Business Planning & Analysis

Financial Services

Our client is a sophisticated, broad-based, Financial Services Group which, having experienced 3 years of rapid change including acquisitions, is now poised for future growth.

The Business Planning function is increasingly high profile and pro-active, necessitating the recruitment of a number of new Business Analysts plus a Group Management Accountant. Responsibilities will include:

- Provision of high quality management information and commercial insight
- Investment appraisal and project benefit tracking
- Financial planning, budgeting, forecasting and modelling
- Supporting management in commercial decisions

Highly Attractive South Coast Location

Suitable candidates will be qualified accountants or MBAs with commercial awareness and excellent communication and relationship building skills. The roles all require experience of current business analysis techniques, one demands sophisticated investment appraisal experience. A Financial Services background would be particularly valued, although not essential.

These are opportunities to join the business at an exciting stage and to make a real contribution to its future development.

Interested candidates should write with full CV, quoting current rewards package to Karen Wilson or Howard Foster, Hoggett Bowers, 28 Essex Street, London WC2R 3AT, Tel: 0171 970 9600, Fax: 0171 353 6624, quoting ref: LKW/21481/FT.

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and Selection

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Group Finance Director

Scotland

circa £60,000 + comprehensive benefits

This Aim-listed specialist services group, which comprises a number of autonomous and semi-autonomous subsidiaries, operates in a variety of sectors. It is diversifying and expanding its activities and a key element of its strategy is the recruitment of a dynamic Finance Director.

Reporting to the Group Chief Executive and a member of the Main Board, you will take full responsibility for all areas of the financial function including information systems. You will also be expected to play a pivotal commercial role, contributing to the overall management and development of the Group.

To do this successfully, you will need to be a CA or equivalent and probably 35 plus. A creative thinker and motivational leader, your fluent and persuasive communication skills will ensure you are able to express your views cogently and effectively. Your personality will be such that you integrate easily and quickly throughout the organisation, enabling you to translate your ideas into positive and practical action.

Currently in a senior financial role which is probably in a service-based organisation, ideally property or agriculture-related, your energy and ambition will be prompting you to take on additional responsibility and

challenge. This is just such an opportunity, in which the successful candidate will be rewarded by an excellent salary, comprehensive benefits package and the chance to make a telling impact on a growing organisation. Relocation assistance will be available where appropriate.

Interested candidates should forward a CV and covering letter to Richard Arnold at the address below. Closing date 31st March 1999.

Deloitte & Touche

management solutions

Deloitte & Touche, 39 George Street, Edinburgh EH2 2HZ.

IT Appointments

15

Front Office IT - Key Players

Total Compensation from £60-135,000

Development Specialists
New Technology. New Builds.

Barclays Capital is an international investment bank. We provide integrated financing solutions to meet the needs of our global clients. As part of the Barclays Group, we have access to the balance sheet of a bank with assets of \$364 billion and a AA credit rating. Central to our business strategy is a commitment to invest in the best people and world class technology. With this, we expect to deliver focused and innovative solutions to our clients. This is especially critical in our front office where we need development specialists leveraging the very latest technology to build a number of business systems. New applications are cross-product which gives technology individuals opportunities to expand their product knowledge. We are looking for developers who have already made an outstanding impact in a front office environment by delivering creative solutions to business challenges. If you can show us how your creative flair has set you apart from the crowd, we have the new technology and applications to enable you to reach your full potential. In return, you will be offered an exceptional remuneration package.

For further information, please contact Karen Higgins or Fiona Wright, quoting the reference number, on 0171 806 1428. Alternatively, send your CV to McGregor Boyall Associates, 114 Middlesex Street, London E1 7JH. Fax: 0171 247 7475. Email: permanent@mcgregor-boyall.com or visit our website at: www.mcgregor-boyall.com/barclayscapital

A SHARPER FOCUS

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And in 10 other cities across the world. <http://www.barclays.com>
Barclays Bank PLC, regulated by FSA and member of the London Stock Exchange. Barclays Capital is the investment banking division of Barclays Bank PLC which undertakes US securities business in the name of its wholly owned subsidiary Barclays Capital Inc, an NASD member.

Pricing & Analytics

You will be working in a high profile front office team whose efforts are central to the firm's business and who provide pricing functionality across a wide range of instruments, including debt, fx and derivatives. You must have good front office experience which may have been gained across a variety of financial products.

Financial Analyst/Programmers

C++, COM, ATL, VB, VBA and NT

These are critical roles in the design and development of new tools. You will aid in project planning and architecture as well as implementation. Your skills set should include C++, COM, ATL, VB, VBA and NT. Strong systemisation skills are required and experience of fixed income analytics or asset-backed securitisation would be useful. Ref: BCF7077

Senior RAD Developers

VB, VBA, COM and NT

Your technical skills portfolio should comprise VB, VBA, COM and NT. Particular knowledge of fixed income and derivatives, yield curve and construction would be advantageous, as would experience of Sybase, SQLServer and web based development. Ref: BCF7098

Derivatives Trading System

Senior Business Analyst/Developers

RDBMS and either C++/Corba/Orbix on Unix

or C++/COM on NT

Working on a new global market rate derivatives trading system build and implementation, this role will involve application, middleware and component based development. You will have considerable experience in C++ against a major RDBMS in a front office development environment on either NT or Unix. Your understanding of front office trading environments will equip you to contribute immediately to the build of this new risk management/F&E system, which must be interfaced globally to Sunline. Ref: BCF7109

Fixed Income Trading System

Senior Business Analyst/Programmer

Business Objects (ATL), COM/COM, Visual C++, VB

You will play a major part in delivering a new global fixed income trading system for position trading and risk management. The architecture is VB and Business Objects (ATL) with a Visual C++ front end against a Sybase/Oracle back end. You will be performing 'clean' end business and technical analysis through build and implementation. In parallel the team will also be responsible for investigating the firm's front office e-commerce strategy and its upcoming implementation. Ref: BCF7100

Global Order Management System

Senior Trading System Developer

VB, RDBMS and Web (VBScript/JavaScript)

You will be working on one of the most strategic front office projects of the firm, comprising the build of a global secure order routing and execution system for exchange traded products. This is a technically challenging project, which will stretch your four+ years full life cycle, client-server development experience to its limit. At least two of these years will have been spent developing in VB/RDBMS and, more recently, delivering Web client components (ASP, VBScript, JavaScript etc). Ref: BCF7101

Cross Product Trading Systems

Financial Markets Experience Desirable, not Essential

Senior Analyst/Programmer

C++ or VB and RDBMS

This role requires proven full life cycle development experience gained in a robust, demanding environment. This may be an investment bank - but it could just as easily be a software house with rigorous development standards. We need excellent C++ or VB and a major RDBMS (Sybase, Oracle, SQLServer, etc) applications are cross-product and support the full range of the bank's trading businesses. Ref: BCF7102

BARCLAYS
CAPITAL

PROJECT MANAGERS / BUSINESS ANALYSTS

Implementation Manager - Investment Banking

to £55,000 + Banking benefits

A young, dynamic investment bank is seeking delivery-focused implementation project managers. With a strong IT background, you must have a well-proven project management pedigree, having already successfully taken on full lifecycle third party application package implementations in an investment banking or dealing room environment. A university degree, outstanding technical skills and excellent knowledge of capital markets, risk, commodities, trade finance, or similar required. Project experience with any of the following would be advantageous: Unix, NT4, Oracle, RDBMS, SQL Server, interfaces, E-Commerce.

Business Analysts - Investment Banking

City of London £40,000 - £58,000 + benefits

We are currently looking for exceptional business analysts for 2 of the world's premier investment houses. You must have at least 3 years business analyst experience in an investment bank or consultancy, proven track record of analysis large projects, developing migration plans and have knowledge of accounting principals. In addition, you will be an excellent communicator, confident, pragmatic, dynamic and possess in-depth business knowledge in areas such as equities, foreign exchange and securities. In return a high profile, challenging role with excellent career prospects awaits only outstanding candidates.

Project Manager / Consultants - Financial Software house

London City, Essex £42-£59,000+benefits

For a career in a growing, dynamic software house / consultancy you must have project management / Consulting experience in the investment banking / finance arenas and excellent technical experience including SQL, Visual Basic, Sybase, Powerbuilder, Unix and Windows NT. In addition, knowledge of equities, securities or risk management are advantageous, you must be extremely client facing and have the ability to command respect from clients and suppliers alike. The variety of projects and clients will make for an exciting and challenging position.

Please contact Andrew Summers on:



Tel: 0171 335 5858
 Fax: 0171 335 0008
 Email: senior.perm@huxley.co.uk
 Mobile: 07971 - 551 045

SENIOR APPOINTMENTS
BANKING & FINANCE

America House, 2 America Square, London EC3N 2AH

SENIOR QUANTITATIVE ANALYST &
C++ QUANTITATIVE DEVELOPERS

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DERIVATIVES AND CASH / ALL PRODUCT AREAS

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CITY

This is one of the world's most successful banking institutions with a powerful global presence and a strong reputation for leadership in financial product development and technical innovation. They are now seeking to recruit a talented quantitative analyst and a number of quantitative developers to further strengthen both their London trading activities and various new risk management initiatives. Both quantitative analysts and developers work together to develop, enhance and integrate trading and market risk models, libraries and strategies.

a top-tier university and preferably a higher degree. You should have a minimum of one year's financial experience. For the developer positions a strong software engineering background is required. Successful candidates will have excellent C/C++, VisualC++, Visual Basic, Excel, Numerical Methods, etc.

Remuneration packages are superb and include substantial bonuses and benefits and a review in six months.

In the strictest confidence, please send a full CV to Craig Millar at Millar Associates, 8 Sloane Street, Knightsbridge, London SW1X 9LE. Please quote reference no. PT1703. Tel: 0171 833 2222. Fax: 0171 833 2208. Email: craig@millarassociates.com.

Millar Associates
INTERNATIONAL SEARCH & SELECTION

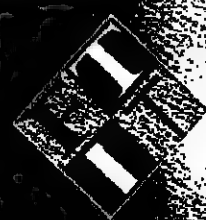
DDV is a pre-eminent provider of consulting services to the European telecommunications and media industry. Our multidisciplinary team of professionals provides both public and private sector clients across Europe with an integrated range of services covering all disciplines that impact on the telecommunications/media business and its regulation.

DDV is seeking a Telecommunications graduate

This telecommunications graduate should have three to five years business experience in one of the following areas: Marketing, Business Management, or Strategic Planning. The successful candidate should have a working knowledge of both voice and data networks with a strong emphasis on IP technology, and the ability to translate this knowledge into a business plan for client implementation. Our preferred candidate will have worked in a telecommunication environment either with a service operator or system integrator, with a strong background on sales channel management for IP technology and services.

Confidentiality: Please send your CV in confidence to Rachel Miller (+44) 0171 833 7653 or send your CV to DDV, 11 Grosvenor Gardens, London WC2B 6TP or rachel.miller@ddvgroup.com.

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christoph.gerth@ft.com



IT Appointments



EUROPEAN CENTRAL BANK

VACANCY IN THE EUROPEAN CENTRAL BANK

SAP ADMINISTRATOR

The European Central Bank (ECB), established in Frankfurt am Main on 1 June 1998, is urgently seeking an SAP Administrator. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

The holder of this position will be responsible for:
Providing first tier help services to internal users of the SAP Budget/Budget Monitoring System with regard to questions relating to its applications.

- Preparing/maintaining/updating documentation for all budget/budget monitoring related applications of the SAP System used by the ECB.
- Ensuring the administration of master data.
- Liaising with the basis administrator and IT system specialists.
- Providing technical/system support of the main business users in setting up/maintaining/enhancing the management information system.
- Developing, implementing and maintaining system-related procedures as they relate to users of the budget/budget monitoring features of the system.

Qualifications

- Several years of experience as a budget/budget monitoring/accounting administrator.
- Experience in the management/administration of an integrated financial and management accounting system, at least some of it with SAP R/3.
- Experience in drafting system documentation/procedures.
- Ability to work in a team.
- A very good command of spoken and written English and proven drafting ability in English. A working knowledge of at least one other European Union language is required.
- Knowledge of the Microsoft Office PC software package.

Ref: ECB/25/99/FT

Applications

Applications should include a Curriculum Vitae and a recent photograph, together with references confirming the required experience and skills. They should quote the reference number and should be addressed to the European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main, and should reach us no later than 26 March 1999. Applications will be treated in the strictest confidence and will not be returned.

The vacancy is also published on Internet: <http://www.ecb.int> but applications should only be submitted on paper via surface mail.

Investment Banking

RAD DEVELOPER Structured Products To £60,000 + bonus

Our client is the structured products desk of one of Europe's leading investment banks. They are looking for a highly numerate graduate to assist the trading desk in marketing exotic derivative products. Currently working for an investment bank or specialist City software supplier you will have an intermediate understanding of equity/interest rate derivative products with the ability to develop short term models covering the full product life cycle. A proven programming background in C++/Corba and Windows NT is essential as is the ability to understand Pricing Principles (Forward Rates, Yield Curves, Vanilla/Exotics, Volatility Matrices and Dividends).

For a confidential discussion please call Rod MacKenzie at LFI on 0171 288 5800 or on 01279 725 683 (evenings/weekends), alternatively email to rmackenzie@lfi.com

QUANTITATIVE ANALYST Market Risk To £65,000 + bonus

Our client is a premier investment bank recognised as the market leader in the provision of Capital Market services. Their reputation is based on the ability to provide highly sophisticated and complex derivative products. They now require an experienced senior quantitative analyst to work in their specialist Market Risk team. You will have been educated to postgraduate level with first class C++/Java programming skills and the ability to program model prototypes for independent model validation and pricing input across all products. Experience should include deriving optimal hedging strategies for exotic option portfolios and measuring the resultant risks with non-normal and empirical distribution.



Head of Operations London

60-100k

International software company.
Technical IT / Business ability needed, 5 years Equity Derivatives knowledge on Sybase Unix platform.

Contract Developer: Financial Control
Risk Management Excel Access VBA SQL

Consultant

60k

Equity Derivatives, systems integration.
Customer liaison.

CAMPION

RECRUITMENT
CONSULTANTS

Africa House 64/78 Kingway, London, A.C28 6AH.
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compton@camco.demon.co.uk

LT Equity Research Associate

Europe

London office of prestigious US Investment Bank.

Qualifications to include University degree with excellent financial and/or accounting skills. Software or IT industry experience and European language skills helpful. Willingness to work long hours.

The position attracts a competitive salary plus benefits commensurate with the level of responsibility.

Please send Curriculum Vitae to:
Human Resources, PO Box 155, London, SW1H 0ED

employees@ your.fingertips

IT Appointments in the FT.

For more information on advertising opportunities please call:
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or Email dris@ph.com

BANKING FINANCE & GENERAL APPOINTMENTS

Senior Opportunities in Compliance and Product Development Highly Competitive Packages • Swindon

Nationwide is the World's number one Building Society with total assets in excess of £50 billion and more than 7 million members. As a mutual organisation, we can focus on the interests of our members who are also our customers, rather than being concerned with external shareholders. This means that we are able to maximise value for our members in the competitive products and rates we can offer. We also devote particular attention to maintaining our exceptional levels of service and reputation for strategic innovation, transparency and probity.

We provide an increasingly wide range of personal financial services throughout our branches and sales-force, as well as through telephone and electronic channels. Our savings and mortgages business is complemented by general and life insurance and unit trust operations to meet the challenges of the fast evolving retail market.

In order to retain our position, we require people with technical skills and strategic vision to make a significant contribution to developing the business for the future of our members.

To apply, email finance@harveynash.com or http://hps.com/Harvey_Nash or write to Harvey Nash plc, 13 Bruton Street, London W1X 7AH including current salary details. (Tel 0171 383 0033.)

Please quote the appropriate reference number.

London Birmingham Bristol Manchester Paris Stuttgart Amsterdam Zurich

Head of Legal Compliance Policy

This senior management role involves the formulation of policies and procedures for retail business conduct across the Group. Heading a team of highly skilled staff, your overall purpose will be to create a framework to enable the organisation to pursue business goals within legal and regulatory constraints. This will require initiative in responding to and keeping the business apprised of developments in legal and regulatory requirements as well as having the strategic vision to identify and develop options for new products.

The role will also represent the legal compliance function on major projects, provide ad hoc legal and regulatory advice to all divisions and approve all marketing and advertising material. In addition, you will be responsible for establishing and maintaining quality standards for all Nationwide regulated sales.

The successful candidate will be degree qualified with an impressive track record in a legal/compliance environment. Technically, you should be highly proficient and undoubtedly, you will be a clear and persuasive communicator with strong presentation skills. Experience within financial services is essential.

Ref: FN4388FT

Pensions Development Manager

Following recent Government consultation papers on the future of pensions provision, there are likely to be significant changes in the way pensions are sold and processed. Nationwide requires a senior manager with excellent technical knowledge of the pensions market to be at the forefront of developing these new products for the organisation. The role requires an experienced pensions expert used to influencing and communicating strategy for new proposals, building the infrastructure to supply them and developing the systems to process them.

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Arts
Guide

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Very expensive heaven

Maastricht's art fair is set to be a scorcher, says Antony Thomcroft

The art market, like the harvest in Biblical Egypt, is expected to move in seven-year cycles. By such calculations the modest expansion that set in after the collapse of 1990, which halved values in speculative areas such as paintings and classic cars, should have exhausted itself by now.

But instead the antiques trade is in rude health, powered by the inexorable growth of the American economy. Sotheby's increased sales in the US by 17 per cent last year to overtake Christie's in the main market, although for consolation Christie's is just clinging on to global leadership by boosting its turnover by 7 per cent in Europe.

If 1998 was sound, 1999 has started even better. The demand for really choice antiques seems insatiable. Sotheby's secured some of the best when it was asked to dispose of the furniture collection of the late Giuseppe Rossi, an Italian dealer of refined taste. The 1,400 lots brought in £21.1m in London last week, more than twice the pre-sale estimate.

Such a result instantly improved sentiment. The resignation of a left-leaning German finance minister filled the antique trade's cup to overflowing. This year's Maastricht Fair, the grandest antiques market in the world, opened in fine fettle last weekend on the news of Oscar Lafontaine's departure and the exuberance has continued. By the time the fair closes on Sunday a record 70,000 of the richest and most passionate collectors in Europe, plus some adventurous Americans, will have walked the broad avenues of this delightful Dutch town, ogling the brightest paintings, the most polished furniture and burnished silver, the most costly jewels and the most arcane objects d'art. This is interior decorators' heaven.

It helps to be rich. At Carlier

The demand for really choice antiques this year seems insatiable

there is a £7m emerald and diamond necklace; at Colnaghi there is one of the finest north European 15th century paintings to come to market in years - a scourging of Christ by the Master of the Karlsruhe Passion, which was bought recently at auction for £3.4m; Richard Green, among 100 works, has a scintillating still life of cheeses by Clara Peeters, priced at £1.7m. Agnew's has a £1.5m family portrait by Zoffany; and there are paintings by Degas and Picasso and Mondrian and more, all bearing seven-figure price tags.

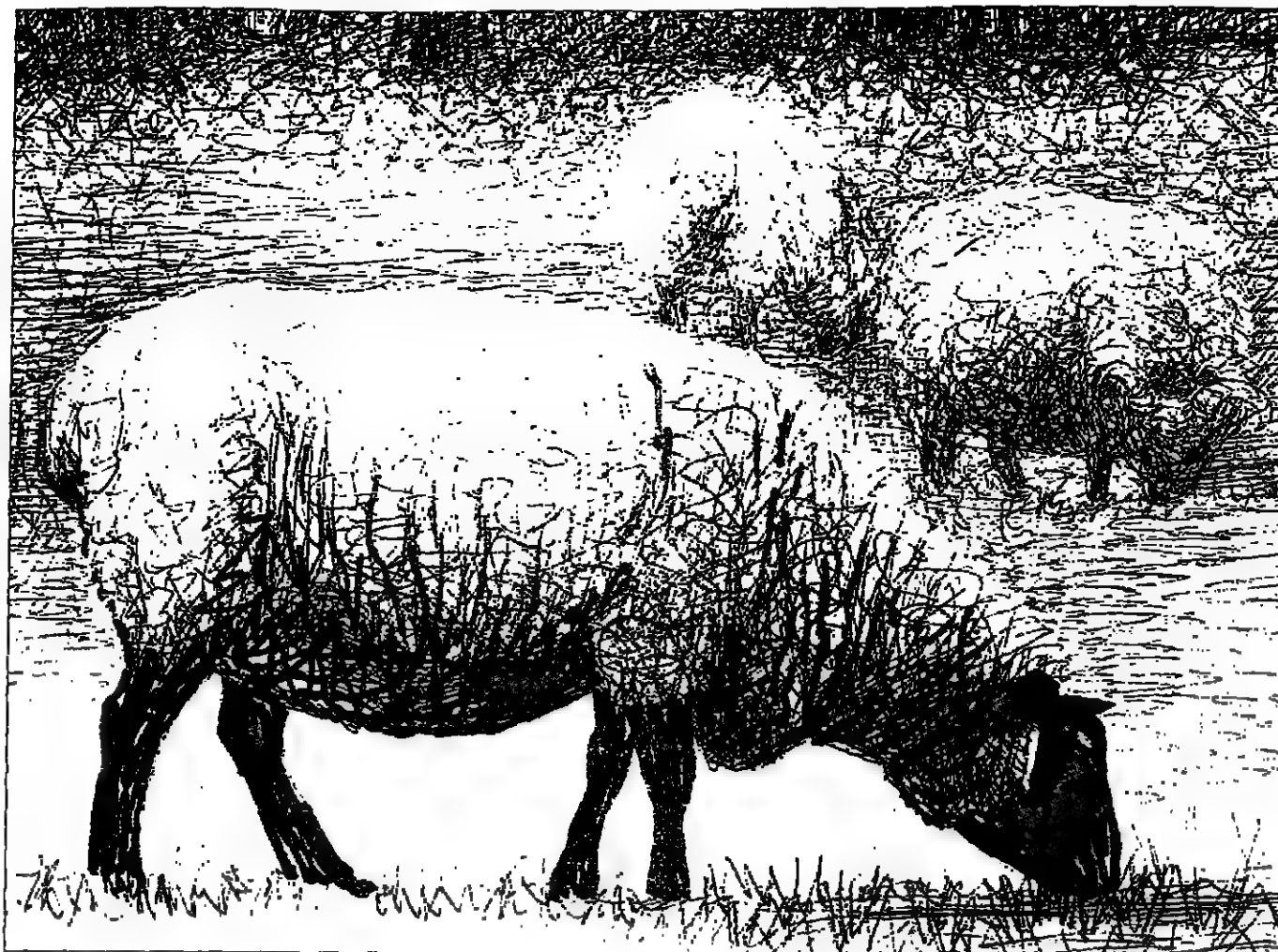
But at Maastricht things sell. On the first day Pelham Galleries disposed of a pair of console tables by Matthias Lock, among the finest examples of 18th cen-

tury English rococo, and part of Paul Getty's furnishings of Sutton Place, for undisclosed millions. The actual figure remains a secret - art should be priceless - but many dealers reckon to achieve about a third of their annual turnover during the 10 days, and judging by the smiles, this Maastricht was set to be a scorcher.

Not that the dealers actually sell their stock at the fair. To avoid the bureaucracy of Dutch VAT, many of the deals are concluded in London or elsewhere. Just as important as the selling is the buying - many dealers stole a march over their rivals by acquiring objects at the fair, and then re-sold the underpriced antiques - and the making of contacts.

Maastricht is the fair that attracts the serious buyers. Where else in Europe can you expect your stand to be picked over by 40 of the top patrons of the Guggenheim Museum in New York? What other fair offers about two thirds of the best Dutch and Flemish Old Master paintings now available on the market?

The fair is constantly changing. This year there are fewer Asian dealers - they have decamped to the Asian Fair in New York. There are also fewer textiles and Old Master drawings on display. But the modern art section has been hugely upgraded, thanks to the enthusiasm of dealer Leslie Waddington. Out have gone the sellers of meretricious soft porn; in have come leading young dealers, such as



Rude health: this drawing, one of a set of 1972 drawings of sheep by Henry Moore on offer at Leslie Waddington, is priced at £90,000

Xavier Hufkens of Brussels, who was happily selling Mapplethorpe photographs, Twombly drawings, and all the challenging modern artists who are now Establishment.

Only the absence of American galleries and collectors prevents Maastricht from being the antiques fair to end all fairs. It still has a very northern continental feel to it, especially in its paintings, its antiques, and its furniture. The objects on display are the traditional passions of the cultivated European rich.

Euroscopics will be happier in the marquee at the Duke of York's headquarters in London's King's Road over the next few days, where about 90 members of the British Antiques Dealers Association are displaying their smartest stock. This is aimed

directly at the middle-class, middle-aged British collector, with plenty of brown furniture, glistening silver, decorative watercolours and paintings, and 19th century ceramics on offer. This is the antiques world as the British know it.

DANCE NORTHERN BALLET'S 'DRACULA'

Chills and thrills

There is no point in being snooty about Northern Ballet Theatre's *Dracula*. Art it may not be - not even NBT in over-optimistic mood could claim that - but it certainly summons Bram Stoker's guide to blood transfusion on to the dance stage, and succeeds in bringing the corpulence of a good martini. I recall reading *Dracula* when far too young and being transfixed with horror. Barry as some of the moments in this staging - by Michael Pink as choreographer, Christopher Gable as director, and Lex Brotherton as designer - may be, it is still, to quote Miss Austen, "all horrid", and I don't suggest it as a happy outing for the tots.

It is, as audiences at Sadler's Wells can see until the end of the month, bloody (in the true sense) good theatre. Not subtle, mark you, for it goes all out to chill and thrill, and it has moments when laughter is not just an escape from tension but a response to an appalling naïveté (the scene set in a Whitby hotel is a marvel of ineptitude), but if you accept it on its own NBT terms - dance as rumbustious theatre - then it is great fun.

The narrative is best grasped from the programme notes, but the performances remain as sound and as full-blooded as when I first reported on it two years ago. Denis Malinkine's *Dracula* has a wardrobe of lurid house-coats and string hair, but his interpretation is concentrated, and the eroticism

that underlies the piece - bloodlust is the phrase we need - is admirably shown. (His impassioned duet with Jonathan Harker has slightly more going for it on sexual terms than his attempts on Mina Harker; no wonder Jonathan wakes up screaming.)

Harker is a dull stick, but Daniel de Andrade gives him weight, and Mina, all purity and promising veins, is very nicely done by Jayne Reagan. Charlotte Broom is alluring as Lucy Westenra, for whom anaemia is just

These artists race through the action like vampire bats out of hell

another kick, and Jeremy Kerridge is once again seen as a very fine dance actor in the role of the fly-eating Renfield - a true and frightening, because beautifully observed, characterisation.

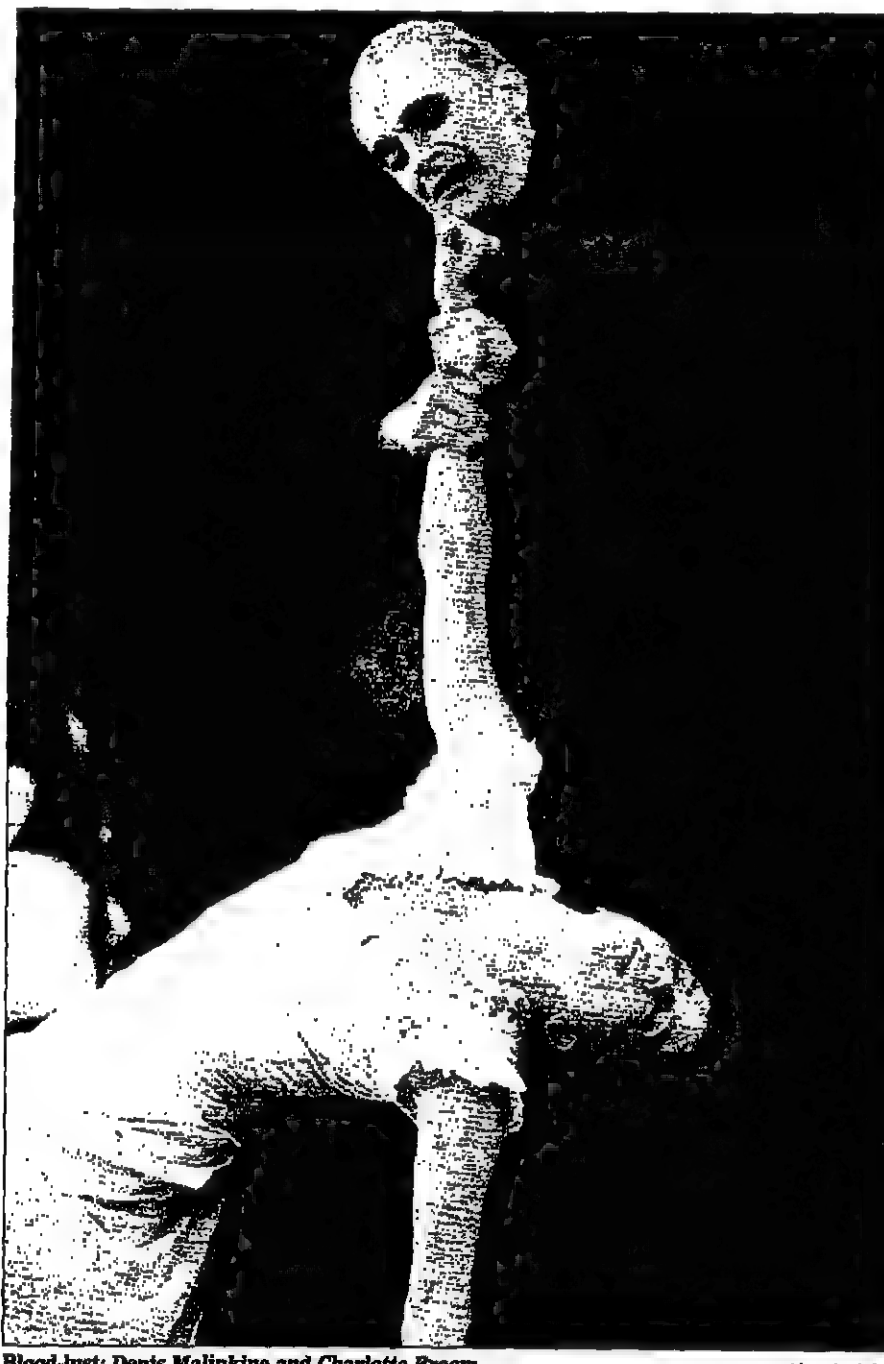
These artists, and their colleagues, race through the action like vampire bats out of hell. Brotherton's designs are, as ever, brilliant in imagination as in realisation: his skill in creating location and atmosphere, in making us believe, is of inestimable benefit to this, as to every other, NBT production. Philip Pooley's score is both music and soundtrack, by no means undistin-

guished, absolutely effective, and atmosphere all the way.

Of course the staging is sheer hocus-pocus, but NBT's artists and NBT's policies have taught us that if well-done, the tricks still work, and *Dracula*, I venture, the company's most successful production yet. You watch it, are decently enough shocked, and you sense the theatre's essential identity as a place of disbelief suspended and belief imposed. There are moments of wild and unintentional farce - and not just from the aspirant vampires and Gothic groupies in *grande toilette* who peppered the audience at Wednesday's first Sadler's Wells performance. The Whitby hotel scene lasts an eternity, is populated by the local amateur operatic society performing *The Shopping Princess*, and offers a one-stepping priest, a drunken chambermaid, Buffalo Bill having a more oriental look than is strictly necessary, a staircase down which people rush in varying degrees of disarray, and one guest who has just dropped in from the well of loneliness. I loved it for three minutes, but alas it went on. And on. There is also, at curtain-rise, a touch of historical colour with a newspaper vendor bearing a placard "Oscar Wilde released". That's called verisimilitude.

Clement Crisp

Sadler's Wells, London EC1. Tour sponsored by Halifax



Blood-lust: Denis Malinkine and Charlotte Broom

Alastair Muir

MUSIC TOWARDS THE MILLENNIUM

Waiting for the verdict of history

Arts promoters must be hoping the man on the Clapham omnibus has acquired a taste for new music. You wait years for a leading festival devoted to 20th-century music and then half a dozen come along at once. Thanks to its policy of encouraging fantasy and be hardly ever lets the mood slip.

Most of what matters in these short operas goes on in the orchestra and the London Sinfonietta, conducted by the composer, combined with the magical French textures of Ravel and the sharpness of Stravinsky. The vocal parts ask for character rather than notable singing and that was how Cynthia Buchanan and David Wilson-Johnson, in particular, played them. Overall the cast was not outstanding.

The BBC was recording these concert performances for a future relay in its "Sounding the Century" series and Deutsche Grammophon will be issuing the two operas on commercial recordings. If they do stay the course, a century from now could have a field day. Babies being eaten, parents who desert their children, nannies devoured by lions - what will they say about the 1980s?

Richard Fairman

Supported by the Britten-Pears Foundation, the Holst Foundation and the Leche Trust

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet:
programme combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Mar 19, 21, 24

OPERA

Netherlands Opera, Het Muziektheater
Tel: 49-30-34364-01
Die Zauberflöte: by Mozart.
Conducted by Hartmut Haenchen; Mar 20, 23

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34364-01
Der Rosenkavalier: by R. Strauss.
Conducted by Jiri Kout; Mar 21

BOLOGNA

OPERA
Teatro Comunale

Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessi and Alberto Sordi; Mar 20, 21, 23

CHICAGO CONCERTS
Orchestra Hall
Tel: 1-312-254-3000
www.chicagosymphony.org

● Chicago Symphony Orchestra:
conducted by Pierre Boulez in works by Stravinsky, Debussy and Berioz, with harp soloist Sarah Bullen; Mar 20
● Chicago Symphony Orchestra and Chorus:
conducted by Pierre Boulez in a concert performance of Schoenberg's Moses and Aron; Mar 24

DRESDEN

OPERA
Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 19, 22

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● Academy of St. Martin in the Fields:
conducted by Murray Perahia and Leszlo Heltay, in a programme of works by Mozart, with soloists including tenor Anthony Rolfe-Johnson; Mar 22
● Academy of St. Martin in the

Fields:
conducted by pianist Murray Perahia, in a programme of works by Mozart; Mar 22
● Philharmonia Orchestra:
conducted by David Zinman, in works by Mendelssohn, Mozart, Daugherty and Tchaikovsky, with violin soloist Joshua Bell; Mar 23

EXHIBITION

National Gallery
Tel: 44-171-939 3321
Rogier van der Weyden: the 20 surviving paintings attributed to the 15th century Netherlandish artist are mostly too fragile to travel. The National Gallery has five, and these are supplemented by two from the Gulbenkian in Lisbon and two from the Getty in California for this show, which celebrates the 600th anniversary of his birth; to Jul 4

FESTIVAL

London Handel Festival
Tel: 44-181-338 0990
London Handel Festival:
highlights include a staging of Handel's opera Lotario at the Britten Theatre, with the London Handel Orchestra conducted by Denis Darlow/Paul Nicholson and soloists from the Royal College of Music (Mar 23-25); concerts at St. George's Chapel, Windsor Castle, St. George's Church, Hanover Square and St. Andrew's Church in Holborn; to Apr 25

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new

staging by Ian Judge; Mar 24

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Bavarian Radio Symphony Orchestra:
conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Mar 20

OPERA

Bayrische Staatsoper
Tel: 49-89-2185 1920
www.staatsoperbayern.de
Katya Kabanova: by Janáček.
Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 21

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic:
conducted by Yuri Temirkanov in works by Shchedrin and Stravinsky, with violin soloist Hilary Hahn; Mar 19, 20
● New York Philharmonic:
conducted by Yuri Temirkanov in works by Stravinsky, with violin soloist Hilary Hahn; Mar 23

EXHIBITIONS

Metropolitan Museum of Art
Tel: 1-212-979 5500
www.metmuseum.org
The Treasury of Saint Francis at Assisi, around 70 masterpieces

of medieval and Renaissance panel painting, gold, textiles and manuscript illuminations, are joined by 30 loans. Includes pivotal works in the development of the early Renaissance; to Jun 27

Whitney Museum of American Art

Tel: 1-212-327 2801
Ray Johnson (1927-1995): Correspondences. First major museum show about the artist who was a progenitor of pop and mail art. The 150 works on display include paintings, collages and mailings from Johnson's New York Correspondence School; to Mar 21

OPERA

Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo (replaced by Yuri Marusin on Apr 3), Galina Gorchakova and Olga Borodina; Mar 22

New York City Opera, New York State Theater

Tel: 1-212-870 5570
www.nycoera.com
● Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Paoletti in the title role; Mar 21, 24
● Madama Butterfly: by Puccini.

Conducted by Guido Johannes Rumschlag in a staging by Mark Lamos first seen in November, with sets by Michael Yeargan and costumes by Constance Hoffman; Mar 20, 23

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Magic Flute: by Mozart.
Conducted by Friedemann Layer in a staging by Robert Wilson; Mar 20, 21, 23, 24

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-364 6000
www.sfsymphony.org
● San Francisco Symphony and Chorus:
conducted by Roberto Abbado in works by Bloch and Rossini; Mar 24
● San Francisco Symphony Orchestra:
conducted by Herbert Blomstedt in works by Berwald and Brahms; Mar 19, 20, 21

TOKYO

CONCERTS
Sunory Hall
Tel: 81-3-3584 9999
● Japan Shinsai Symphony Orchestra:
conducted by Chosai Komatsu; Mar 20
● Vienna Philharmonic Orchestra:
lecture by Dr Clemens Hellberg and chamber music by R. Strauss; Mar 22
● Vienna Radio Symphony

Orchestra:
conducted by Heinrich Schiff in works by Beethoven and Dvorak; Mar 19

VIENNA

EXHIBITIONS

Austrian Museum of Applied Arts
James Turrell: retrospective of the American artist who incorporates the elements into his architectural designs; to Mar 21

OPERA

Wiener Staatsoper
Tel: 43-1-51444
Cavalleria Rusticana: by Mascagni/Pagliacci by Leoncavallo. Simone Young conducts; Mar 21, 24

TV AND RADIO

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22.00: World Business Today Update
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BILL GATES ON BUSINESS

The day Microsoft 'got' the internet

In this second extract from his new book, Bill Gates explains how his company used a firestorm of e-mail and a host of informal initiatives to shift its strategy in response to 'bad news on a colossal scale' - the threat to its business posed by the net

The Internet was not always the top priority in Microsoft's strategy. Its arrival became the biggest unplanned event we've ever had to respond to. In fact, in 1996 various experts predicted that the Internet would put Microsoft out of business. This was bad news on a colossal scale. We used our digital nervous system to respond to that crisis.

On August 24, 1996, we introduced Windows 95, the most ambitious software product to reach out to the general consumer, with the biggest fanfare in computer history. Windows magazine said: "This year - for better or worse - Microsoft wins the war."

Within a couple of months, though, the press coverage cascaded in the other direction. The Internet had burst into the public's awareness, and the perception was that Microsoft hadn't been invited to the new party. Now stories in the press said that we "didn't get it". The Internet signified our doom. Small, nimble competitors would put Microsoft out of business.

On December 7, 1996, we held our first Internet Strategy Day, where for the first time we publicly previewed the array of technologies we were developing to integrate Internet support into our core products. Within a year of those announcements we had "Internet-enabled" our important products and delivered a number of new ones focused on the Internet.

Now we lead in several important Internet areas and have a growing number of people using our browser. No one company will dominate the Internet, but Microsoft has come back to play an important role. How, our customers and the press often ask me, did we turn the ship around so fast?

First of all, we were never as oblivious to the Internet as we might have seemed to outside observers. Back in 1991 we'd hired J. Allard, a specialist in Internet networking, to ensure that we developed the right technologies for inter-operability. By mid-1993 we'd built support for the basic Internet networking protocol into our Windows NT product, both server and desktop. By then we were also well under way with developing our approach to an online service, which became MSN.

We had an Internet site set up in a hallway of Building 2 to test our Internet connectivity. As a draw, we made a minor upgrade to MS-DOS available on the site. J. Allard would drag everyone to Building 2 to show off the activity and fire up people about the Internet's potential. In a 10-week period customers downloaded twice as many copies of the MS-DOS upgrade from this site as from CompuServe, a level of activity that told us something big was brewing.

But let's also be clear. In 1993 we were not focused on the Internet. It was a fifth or sixth priority. Our new Microsoft Internet site consisted of three machines on an eight-foot folding table in J. Allard's hallway with handwritten instructions on how to connect to the Internet.

The yellow network cable for the Internet connection ran out of his office over his wall to the machine in the hall. Four power connector strips linked to the electric outlet from another person's office to power all the equipment on the table. Dust tape held all these cords in place.

It wasn't long before a fire marshal showed up, intent on shutting down Microsoft's site as a fire hazard. A week's reprieve enabled J. to transfer the machines to our corporate IT facility, where we began to transform our fledgling Internet support into a full-blown corporate programme.

At this time, we didn't have an overall Internet strategy for the company. We didn't see that the Internet, a network for academics and techies, would blossom into the global commercial network it is today. We were focused on broadband applications such as video-conferencing and video-on-demand.

The Internet's sudden growth in popularity changed all the rules. People were willing to put up with the Internet's deficiencies because it made vast amounts of information available and enabled easy communication. Content providers raced to respond to the opportunity, creating exponential growth. In 1993 alone Internet use doubled to more than 25m people.

The impetus for Microsoft's

response to the Internet didn't come from me or from our other senior executives. It came from a small number of dedicated employees who saw events unfolding. Through our electronic systems they were able to rally everybody to their cause. Their story exemplifies our policy, from day one, that smart people anywhere in the company should have the power to drive an initiative.

We could not pull off such a policy without the technology we use. In many ways technology has shaped the policy. Do people all over my company feel free to send me e-mail because we believe in a flat organisation? Or do we have a flat organisation because people have always been able to send e-mail directly to me? For years everybody at Microsoft has had a PC and e-mail access. It's shaped the way we think and act.

Those baffling error messages floor me too

We could eliminate a lot of customer help calls at Microsoft by fixing such simple things as error messages. It's pretty shocking how confusing or cryptic they are.

Here's one of my favourites, which perhaps one user in a thousand might understand: "The DHCP client could not obtain an IP address. If you want to see DHCP messages in the future, choose 'yes'; otherwise choose 'no'."

I love that "otherwise choose 'no'". The message assumes that everybody understands the meaning of DHCP (a method for allocating computer addresses on a network) but that nobody understands the difference between yes and no.

I didn't know what this message meant the first time I saw it, so like other users, I chose "no" - I never wanted to see this particular message again. I showed this error message in a recent slide presentation while making the point that we need to push for simplicity in our software, and a

In January 1994 J. Allard wrote a memo in which he laid out the opportunities and dangers presented by the Internet. Coincidentally, within a week Steven Sinofsky (my technical assistant then) went to Cornell University on a recruiting trip. While stuck there for two days in a snowstorm, he checked how the university was using computers. Steve was amazed at the revolutionary changes Cornell had undergone since his visit the year before.

In his e-mail trip report Steve marvelled at how "wired" the school was. About a third of the students had PCs, some school departments provided PCs, and kiosk PCs were available in public spaces. E-mail use by students was close to 100 per cent. A student could view her current course schedule, her previous grades, her outstanding accounts, financial aid information, and a directory of the school community online. Many faculty members were communicating with students online and used online chat services to collaborate with each other. Steve even saw real-time video-conferencing over the Internet.

What struck Steve was how thoroughly this technology had become integrated into campus life "in practically no calendar time" and how students took it totally for granted. He said that for students "the online services are as ubiquitous and expected as regular phone service" and that "this pace of change in information access is faster than for any other technology I have seen in my lifetime, including the personal computer itself."

J. and Steve made a number of recommendations about what Microsoft should do to participate in this revolution. Where Steve had focused on the users and cultural changes, J. drilled into the technical implications for a variety of Microsoft products. He noted that we were behind many of our competitors as far as the Internet was concerned but said that our "agility and creativity will allow us to catch up quickly" provided there was "efficient communication between the groups within Microsoft that these efforts impact." J. listed a wide range of Microsoft groups he thought needed to co-

operate in an Internet effort. Steve and J.'s memos quickly circulated by e-mail among a large number of people at Microsoft.

They set off a firestorm of electronic deliberation. The number of issues to be considered was enormous. How should our operating systems support the Internet? What did "Internet ready" or "Internet enabled" mean for Microsoft Word, Microsoft Excel, and the rest of our productivity suite? What did it mean for our e-mail products? What new products did we need? What Internet technologies should be packaged as new products, and what technologies should be incorporated into our existing products? Which technologies should we license? Should we focus initially on the ways businesses could use Internet technologies internally or

few people thought I'd run into a technical problem in the middle of the speech! We have fixed this message in the latest version of Windows

Have you ever seen the error message that says the system can't associate a file with the right application? That one is really frustrating. If the system doesn't know what files go with what programs, how likely is it that you will? And how many different error messages have you got when you've tried unsuccessfully to connect to a web page? Could anybody, on the basis of one of those error messages, figure out the real reason for the failure?

The problem is not only that the messages are confusing, it's that the system as a whole is not smart enough to help the user through a problem. Instead of simply alerting the user to some inscrutable error, the software needs to fix the problem automatically or walk the user through the necessary steps to fix it. We now have software wizards, for instance, that help users through printing problems or give users shortcuts, and we plan to provide more wizards in the future.

on the ways consumers could use the technologies broadly? Sometimes an idea got quick agreement. Sometimes the response was shrill mail saying: "You've got it all wrong". At different times people prodded me and other senior executives to move faster. We told middle managers to go out and explore the Internet, to develop their own impressions and come to their own conclusions about what had merit on the web and what didn't. We all had favourite sites we'd recommend to the others.

Checking out competitor sites became something you did every morning. I still do. I have one PC in my office set up to rotate through a number of web sites, including our competitors' sites, so that I can see how different companies are using the web.

These independent explorations led to dozens and dozens of great ideas. Quickly, over e-mail, people offered their opinions, fleshed out the issues, considered the options. The amount of e-mail was just fantastic. E-mail discussions led to many small group meetings - often loud, informal ones in the hallways to hammer out recommendations. "Hallways and e-mail" - that's how it happened. As topics expanded, smaller groups would break off into their own e-mail chains to consider subsets.

Before long, large numbers of people in different parts of our organisation were participating. I was engaged in lengthy e-mail exchanges with dozens of people involving everything from our

business strategy for online services to our technical approach to hyperlinking.

To get a big company moving fast, especially on a many-headed opportunity like the Internet, you have to have hundreds of people participating and coming up with ideas. But you're also got to get them focused, or you'll never get any decisions made or get anything done. Our digital nervous system informed and propelled our decision making.

E-mail generated the thinking and analysis, so teams moved quickly to develop strong points of view and recommendations. Once the e-mail chains got long enough and we had enough issues and recommendations to consider, we'd go off on retreats to produce the final decisions. Then we'd set priorities and ensure co-ordination among big groups. In 1994 we had three classic retreats several months apart. After the first one, on April 8, 1994, I e-mailed my staff to say: "We're going to make a big bet on the Internet."

I devoted my April 1994 Think Week to the Internet and multimedia topics. In a Think Week, which I do twice a year, I set aside all other issues to concentrate on the most difficult technical and business problems facing the company. We held our first important progress review in August 1994.

Once again, it was the newer employees running the show. One of the biggest concerns at the time was whether we could convert our internal product and sales information from its database format into Internet-readable HTML format. Much of the massive amount of product information was appropriate for customers, and we thought it would be a great addition to our web site as we were getting off the ground. One person at the meeting felt that the technical challenges of conversion would be too difficult. The next speaker turned out to have already developed a converter on his own initiative. His manager had told him the Internet would never be part of their group's business. By the time of this meeting, the small team had already converted thousands of files containing product information into HTML, and many of these files were already beginning to go online. I was pleased to see so much initiative.

By early 1996, months before we introduced Windows 95, every team at Microsoft had defined its Internet charter and begun development. In short order we were rolling out Internet add-ons, Internet integration and new Internet products.

In a May 1996 e-mail memo called "The Internet Tidal Wave", I summarised our strategic directions and decisions and announced a corporate reorganisation to map our Internet goals to every segment of the company.

I made certain that the entire company understood the importance of our focus on the Internet: "Developments on the Internet over the next several years will set the course of our industry for a long time to come... The Internet is the most important single development to come along since the IBM PC was introduced in 1981..."

"Since the Internet is changing so rapidly we will have to revise our strategies from time to time and have better inter-group communication than ever before. Our products will not be the only things changing. The way we distribute information and software, as well as the way we communicate with and support customers, will be changing."

By the time we went public with our Internet strategy in December 1996, it was damn the torpedoes, full speed ahead. As I've said several times since: if we go out of business, it won't be because we're not focused on the Internet; it'll be because we're too focused on the Internet.



Why bad news is good to hear

At least it's better than the alternative: the silence that conceals a problem

I have a natural instinct for hunting down grim news. If it's out there, I want to know about it. The people who work for me have figured this out. Sometimes I get an e-mail that begins: "In keeping with the dictum that bad news should travel faster than good news, here's a gem".

A lot goes wrong in any organisation, even a good one. A product flops. You're surprised by a customer's sudden defection to another vendor. A competitor comes out with a product that appeals to a broad new market. Losing market share is the kind of bad news that every organisation can relate to.

Other bad news may have to do with what's going on internally. Maybe a product is going to be late, or it's not going to do what you expected it to do, or you haven't been able to hire enough of the right sort of people to deliver on your plans.

An essential quality of a good manager is a determination to deal with any kind of bad news head on, to seek it out rather than to deny it. An effective manager wants to hear about what's going wrong before he or she hears about what's going right.

You can't react appropriately to disappointing news in any situation if it doesn't reach you soon enough. Today's digital technology can ensure you get the news and you can put your organisation into action fast.

How fast a company can respond in an emergency is a measure of its corporate reflexes. People in the organisation will feel lousy and threatened by bad news, but that's okay as long as they feel it as a group.

As an act of leadership, I created a sense of crisis about the

Internet in 1994 and 1995. Not to leave people paralysed or unhappy, but to excite them into action. The leader needs to create an environment in which people can analyse the situation and develop a response.

I like good news as much as the next person, but it also puts me in a sceptical frame of mind. I wonder what bad news I'm not hearing. When somebody sends me an e-mail about an account we've won, I always think: There are a lot of accounts nobody has sent mail about. Does that mean we've lost all of those?

That reaction may seem unwarranted, but I've found there's a psychological impulse in people to send good news when there's bad news brewing. It's as if they want to lessen the shock.

A good e-mail system ensures that bad news can travel fast, but your people have to be willing to send you the news. You have to be consistently receptive to bad news, and then you have to act on it.

Sometimes I think my most important job as a chief executive is to listen for bad news. If you don't act on it, your people will eventually stop bringing bad news to your attention. And that's the beginning of the end.

In three years every product my company makes will be obsolete. The only question is whether we'll make them obsolete or somebody else will. In the next 10 years, if Microsoft remains a leader, we'll have had to weather at least three big crises.

That's why we've always got to do better. Ask anybody who's ever worked at Microsoft and they'll tell you that if there's one cultural quality we have, it's that we always see ourselves as an underdog.

I see us as an underdog today, just as I've seen us as an underdog every day for the last 20 years. If we don't maintain that perspective, some competitor will eat our lunch. I insist that we stay on top of the news, as well as pursue longer-term developments on the research front, and that we use "bad news" to drive us into putting innovative features into our products.

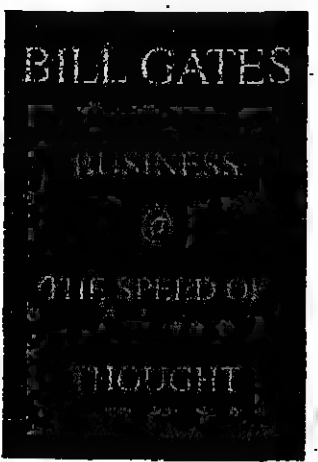
One day somebody will catch us napping. One day an eager upstart will put Microsoft out of business. I just hope it's 50 years from now, not two or five.

Business lessons

- A company's ability to respond to unplanned events, good or bad, is a prime indicator of its ability to compete.
- Strategically an important function of the chief executive is to look for bad news and to encourage the organisation to respond to it. Employees must be encouraged to share bad news as readily as good news.
- The flatter the corporate hierarchy, the more likely it is that employees will communicate bad news and act upon it.
- Personal initiative and responsibility thrive in an environment that fosters discussion.
- Reward worthy failure - experimentation.

Diagnosing your Digital Nervous System

- Do your digital systems enable you to learn about bad news anywhere in the company and to communicate it quickly?
- Do your digital systems enable you to assemble the necessary data and to get teams working on solutions quickly?
- Can you put together virtual teams from separate departments and locations?



Business @ the Speed of Thought
Using a Digital Nervous System
by Bill Gates with Collins Haringway
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The first extract in this series appeared in March 1998. The remaining extracts will appear on March 20. (Home is where the Internet is) and 22 (Copying with an eye for change). An interview with Bill Gates by Louise Kibbey appeared in March 17. The author shares on how the future is shaping up for Microsoft and for the computer industry as a whole will appear on March 23.
Extract © William H. Gates III 1998

Moving

Bumpy ride to buy a car

MEDIA BERTELSMANN

Moving on to the global stage

John Gapper and Frederick Stüdemann on the German media group's plans to expand in the US

When shares in Barnesandnoble.com, the Internet bookshop, were offered to the public yesterday, Bertelsmann gained a much-needed tool. The German media group knows that if it is to keep expanding in the US, it must have some highly valued shares to wield.

Amazon.com uses its shares to acquire other companies. We need to compete with the same weapons as the other side," says Thomas Middelhoff, Bertelsmann's chief executive. It bought 50 per cent of Barnesandnoble.com for \$200m last year, and was aiming to sell up to about 10 per cent in the offering.

Expansion in the US has become an even higher priority for Bertelsmann since Mr Middelhoff took charge last November. He was best-known before that for persuading the private company to invest \$50m in 8 per cent of America Online in 1995 - a stake that would today cost \$4.2m.

Bertelsmann certainly has the size to compete on the global stage with News Corporation and the other

US giants. Not only is its Gruner + Jahr magazine division powerful in the largest European market, but its book and music divisions are strong across Europe and in the US market.

Pearson, which owns the Financial Times, is a co-investor in Channel Five in the UK with CLT-Ufa, the broadcasting arm of Bertelsmann. Gruner + Jahr is also launching a new German language business newspaper with Pearson, which will draw on the editorial content of the FT.

Bertelsmann's agility is another matter. It is privately owned, and has stuck to its own deliberate pace of development rather than copying the headlong pace of News Corporation.

Having bought the US book publisher Random House for \$1.1bn last year, and spent DM1bn (\$55m) on the specialist publishing group Springer, Bertelsmann is at its self-imposed cap for debt. It limits debt to 1.5 times its annual cash flow, and it currently has about DM3.5bn debt compared with DM2bn of cash flow. Yet the company has a

comparatively old-fashioned mix of operations for a global media group. Although it is one of the "big five" music companies, it has neither a film studio nor a television network in the US, and instead spent the bulk of its money in the US on buying Random House.

The most obvious way to correct this bias would be to buy a Hollywood studio to match Viacom's Paramount, and News Corp's Fox. But Mr Middelhoff says he is unconvinced, arguing that investments in terrestrial television through CLT-Ufa are more valuable.

"I am not interested in investing in Hollywood. Why should I buy a studio for a lot of money? Sometimes I wonder what the impact of Hollywood movies will be in five or 10 years' time," he says. Instead, he says European broadcasters should invest in productions for local audiences.

He displays more interest in another possibility - buying a US television network. But US regulations preclude a European company holding more than 24.9 per cent

of a network. "It is something we must discuss carefully and confidentially with the administration in Washington," he says.

Bertelsmann has at least one argument on its side: the Vox German channel, in which CLT-Ufa holds 25 per cent, is 49 per cent owned by

It is privately owned, and has stuck to its own deliberate pace of development

News Corporation. Mr Middelhoff points out that the US is more restrictive than Germany about foreign holdings of television networks.

Furthermore, networks such as NBC, owned by General Electric, and CBS, are widely seen as for sale at the right price. But it could be hard to justify the acquisition of a network by itself given that most broadcast advertising revenues now

flow from the network's affiliate stations.

Mr Middelhoff reserves the most open enthusiasm for the Internet and electronic commerce, which he says suits the traditions of Bertelsmann well. The company was rebuilt after the war by Reinhard Mohn, a Bertelsmann family member, with subscription-based book clubs.

"That is our chance. Maybe you think he's wrong to compare old and dusty book clubs with the Internet. No, no. You can do it," he insists, pointing out that both depend on building up a subscriber base. "It sounds amazing, but it is true. AOL is not so far away from managing a book club."

Indeed, he believes Bertelsmann could outflank Amazon in Europe in the way it manages its Books Online venture, which has been launched in France and Germany. Books Online is to stock 4.5m titles, and will offer music CDs and video online just as Amazon.com does.

Bertelsmann can aim at subscribers more effectively than Amazon through

techniques developed in book clubs, he argues. "I believe Amazon's objective is to be a warehouse on the net with hundreds of thousands of articles. That is OK, but it allows us to make targeted offers," he says.

One thing Mr Middelhoff does admit to envying in youthful Internet companies is a single technology platform. The group is decentralised, with companies such as CLT-Ufa given their head. But as he points out, "it makes no sense to have a company with 12 different e-mail systems".

Just as hard will be building a coherent Internet business in the US out of its various stakes. While broadcast networks and traditional media companies have been trying to link with Internet companies, Bertelsmann has relatively few cards to play on either side of this divide.

But the Barnesandnoble.com initial public offering is at least a start, and the company has a chief executive with a network of useful US contacts. As the conversation ends, his secretary brings Mr Middelhoff a note. "Ah, Bill Gates. It's the third time he's tried to reach me," he says.



Middelhoff: 'I am not interested in investing in Hollywood'

DAVID BOWEN
WEB SITE INSPECTION

Bumpy ride to buy a car

Poor site navigation in the US and legal restrictions in Europe are slowing customers down

It's spring: time to rush out and buy a new car. Or perhaps to stay in and buy one. Given how easy it is to buy a computer on the web, why can't we do the same with a car?

We can, up to a point. A few motor manufacturers let us start the process of buying online. But none of them allows us to finish it - we are always directed to a dealer, even though they could theoretically be overtaken by companies selling direct.

Will this ever happen? In Europe, the motor trade's "block exemption" from normal European Union competition rules make it unattractive for manufacturers to sell direct. Even so, Volvo is firing a warning shot with its Belgian site. Clicking on a model brings up a window that takes you through the configuring process: choose your colour scheme, options, engine and financing scheme, and send an e-mail to a dealer saying this is what you want.

The system is not particularly easy to use, and is incomplete: under "options", you get a printable document telling you what the choices are, but no way of selecting them interactively. The site, however, looks good: it carries details of the different models and it should be working well by the time block exemption is lifted, probably in 2002.

In the US, General Motors' new Buypower site is impressive. First, choose a model by looking at its features and comparing them with other cars using an (independently provided) head-to-head system. Select your options and colour scheme. Put in your Zip code to find the dealer nearest you, and see which cars fit your needs. Exact matches are shown in red, with near-matches in black. A clever trick for a literal-minded computer.

Then click to bring up the "window sticker" - the specification of that particular car - and get a financing quote online. Finally, send an e-mail asking the dealer for a test drive, what his "best price" is, or reserving the car.

Buypower is let down by its navigation. I found myself stuck several times, unable to go back a step and so having to start again. This problem is associated with heavy use of "frames," and will make many people give up.

In real car showrooms you are led through the choosing, financing and paying process by sales

people who will do their utmost to make sure you do not give up. On the web there is no one to chivvy you, so unless the buying process is simple, you could easily call a halt.

This is not, however, going to stop Buypower generating a pile of business. The question GM's dealers must be asking is whether it is an end in itself, or just the first step towards direct selling? Volvo Belgium.

www.volvocars.volv.be
Overall ***
Design ****
Navigation ***
GM Buypower
www.gmbuypower.com
Overall ****
Design ***
Navigation **

The 71st batch of Oscars will be given away on Sunday, and I have been poking about the official site. It has plenty of good stuff, including a list of all the nominees. A search engine will locate them by film, song title, or actor. The history section is good, too, giving a dose of glory to the sound-effect and make-up people as well as the stars. Three things struck me. First, the streaming video film clips work well at times, but not at others. These allow you to see a clip in a box the size of a large postage stamp without waiting for it to download on to your hard disk.

Second, the site has banner advertisements everywhere, and no opportunity to sell a poster or video is missed. This seems reasonable, and does not detract from the fun.

Third, it is extremely American. Yes, it is the US Academy of Motion Pictures, Arts and Sciences, but the Oscars really are global. The site has details of Oscar parties and the television show, but these are only of interest if you are in the US. Everyone knows the Internet is dominated by the US but it would be nice to feel that Americans realise that we funny foreigners use it too.

www.oscar.com
Overall ***
Design ***
Navigation ****

More proof that the web is a bastion of free enterprise. Type in www.lewinsky.com, and you get a commercial porn site ("purchased from the previous owner, the Lewinsky bookstore, and not associated with anyone named Lewinsky"). Try www.monica.com, and someone called Jim is asking for "serious offers" for the address. We must surely soon get an electronic market in domain names. I'd guess there would be a fairly heavy discount on three-month Monica.com.

David Bowen is editor of Net Profit newsletter (www.net-profit.co.uk); info@net-profit.co.uk

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COMMENT & ANALYSIS

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Friday March 19 1999

A steely threat to free trade

The vote by the US House of Representatives to limit steel imports, in violation of World Trade Organisation rules, is a warning shot that will be heard around the world. It does not mean the US is closing its market - yet. But it is a clear signal to Bill Clinton, and to America's trade partners, that they should prepare for trouble ahead.

The proposal seems unlikely to become law. Even if it passes the Senate, the White House has said it will veto it. But the overwhelming vote in favour of the bill - despite that threat and against the advice of Republican leaders - shows just how fragile support for free trade has become on Capitol Hill.

The House's action is in part due to energetic lobbying by steel producers struggling against competition from cheap imports. But it is also a vote of no confidence in Mr Clinton's approach to trade policy. The blame is largely his. Although instinctively opposed to protectionism, his failure to communicate his convictions effectively, and expend the necessary political capital, has left him waging an increasingly rearguard battle.

For much of Mr Clinton's first term, US trade policy lurched between mercantilism and unilateralism. His request for fast-track trade authority founded 18 months ago because he never explained adequately why he wanted it and did too little, too late, to campaign for it. Lacking strong White House leadership, the powerful US business lobbies that normally champion free trade laid down their arms.

Such inconsistencies have weakened Mr Clinton's ability to

set the trade agenda and exposed him to pressure from hardliners in Congress. That is deeply worrying at a time when global economic recovery hinges on keeping the US market open, and when the sudden power vacuum in Brussels threatens to aggravate conflicts over issues such as bananas and beef. Any slowdown in US growth would make the situation still more precarious.

Mr Clinton needs quickly to regain control of events. He should do so by using all his persuasive powers to articulate the case for free trade. He should say that although it can cost jobs, it creates many more; that cheap imports enhance the competitiveness of US producers; that respecting WTO commitments is essential to global stability; and that erecting trade barriers would risk setting off a chain reaction of protectionism worldwide, which would leave Americans much poorer.

Delivering that message will require courage. It may not be popular with many Democratic party supporters, particularly the unions. Yet unless Mr Clinton firmly stakes out his position, he risks increasingly being left to the mercy of events.

But America's trade partners, above all Europe and Japan, must also play their part, by heading more attentively US calls to do more to assist global recovery by increasing imports. The required actions are mainly in the field of macro-economic policy and deregulation, rather than trade. But as US officials have repeatedly warned, failure to take them quickly would risk turning last year's financial crisis into this year's trade crisis.

ECB's limits

The European Central Bank's latest monthly bulletin delivered a stinging rebuke to European governments, criticising them for making slow progress on fiscal consolidation. Its view may well be justified - but its attempts to influence governments are not.

A central bank clearly has to take the fiscal policy stance into account when setting monetary policy. So it is quite acceptable for the ECB to include in its bulletin an analysis of the impact of past and future budgetary actions on the overall economic outlook. Quite reasonable, too, for it to assess whether budget deficits are likely to hit the critical 3 per cent boundary.

But the ECB has gone much further than this. Not only did it heavily criticise European governments' 1998 and 1999 budgets for failing to deliver on fiscal reform. It also gave its views on whether deficit reductions should come from revenue rises or expenditure cuts; said that government debt remained "too high"; and made a bald statement that the European governments' tax take as a proportion of output is too large, creating "substantial disincentives" to economic activity. For good measure, it added that the current "favourable" economic climate would only

mean more jobs if structural reforms were addressed.

Much (though perhaps not all) of this is true. But it is not the ECB's job to say so. Although individuals are entitled to their opinions, it is quite a different thing for the ECB to express its opinion on such intensely political matters, as an institution. Fiscal policy and structural reform are the business of national governments, not the central bank. Inevitably, the ECB's criticisms also reinforce widespread fears that the European economic policy process is over-politicised: Oskar Lafontaine tried (ineffectively) to influence the ECB; and now the ECB looks, in turn, as if it is trying unduly to influence the politicians.

If the ECB is truly worried about an imbalance between monetary and fiscal policy, then it should make a serious effort to co-ordinate policy with national governments. But the euro-zone is not in that position. European deficits still fell by 0.2 percentage points in 1998, and this after a lengthy period of fiscal consolidation. The situation is not critical enough to justify the intervention of the central bank. Unless and until it is, the ECB should concentrate on the conduct of monetary policy - and leave the politics to elected politicians and the public.

Israel's courts

When a country is able to bring corrupt public figures to book in its courts, it is normally the sign of a healthy polity. But this is not the impression left by the conviction in Jerusalem last week of one of Israel's leading politicians, Aryeh Deri.

Mr Deri is the charismatic leader of Shas, an ultra-Orthodox religious party representing the Sephardim, Jews from North Africa and the Middle East. After a nine-year investigation, he was convicted of bribery, aggravated fraud and breach of public trust. So far, so banal. Mr Deri's judges, however, along with the head of the Supreme Court, are under armed guard. More alarming still, some senior ministers are guilty of denigrating the courts at a time when the rule of law itself is under fierce challenge.

As but the most egregious example, Ehud Suissa, the interior minister (and a Shas colleague of Mr Deri), said he might have accepted the verdict had the judges been "three angels" rather than "flesh and blood". That not being the case, the head of Israeli law enforcement said: "I don't have to accept what they say."

Only a day earlier Tsahi Hanagbi, the justice minister and a member of Prime Minister Benjamin Netanyahu's rightwing Likud party, rubbished the State

Comptroller's five-year investigation into a military accident. This exonerated Ehud Barak, then army chief of staff and now leader of the Labour opposition challenging Mr Netanyahu, yet the justice minister demanded Mr Barak "retire from public life".

There is more to this than politicking ahead of the general election on May 17. The ultra-Orthodox parties, dreaming of replacing democracy with theocracy, are vital to the coalition calculations of Likud and Labour. They have consequently gained more power than their minority status deserves. Israel's secular leaders, moreover, seem reluctant to defend the courts.

Mr Netanyahu bears a lot of the blame, for his rabble-rousing attacks on the "elites" - courts, army, academia, media - traditionally dominated by Ashkenazi (Jews from Europe) linked to Labour. Avigdor Lieberman, his former chief aide, has even set up a new Russian immigrant party, with strong fascist overtones, that overtly incites feeling against the justice system.

Such attitudes to the rule of law, whether cavalier or confrontational, are poisoning Israeli democracy, the defence of which requires all Israeli leaders to uphold the courts' right to act for all of society.

The vogue for corporate break-ups is alive and well on both sides of the Atlantic. Two weeks ago Hewlett Packard said it would spin off the Instruments business on which it was founded. This week Tarmac, the venerable UK construction company, said it would split its construction and aggregate divisions.

The market reaction was instructive. Hewlett Packard's shares twitched briefly, then subsided. Tarmac's rose by less than 1 per cent.

Perhaps these companies should count themselves lucky. Six months ago, Du Pont spun off its oil subsidiary Conoco. Since then the shares of both Conoco and Du Pont have underperformed the US market by around 20 per cent.

Or take Minnesota Mining and Manufacturing, which in 1995 spun off its imaging and data storage business under the name Imation. Since then 3M's shares have underperformed the market by 40 per cent and Imation's by a gruesome 70 per cent.

It was not supposed to be like this. In recent years, it has become a management axiom that focus pays: that when businesses are freed from the stifling influence of head office, they burst into entrepreneurial vigour. The multi-business company, we are told, is worth more dead than alive.

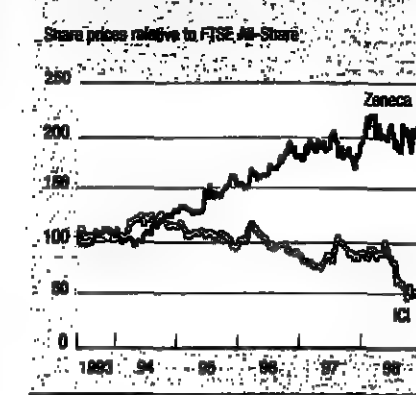
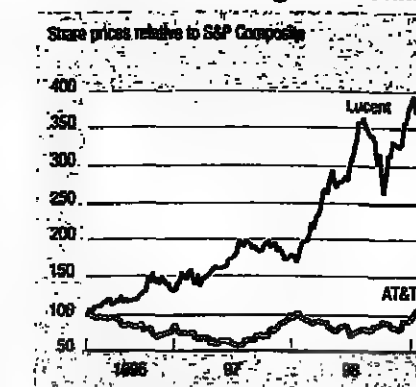
Each side of the Atlantic has its classic case. In 1992 Imperial Chemical Industries spun off Zeneca, its life sciences business. In 1995 AT & T did the same with Lucent, its equipment manufacturer. In both cases the child vastly outperformed its erstwhile parent, and shareholders were enriched accordingly.

Some would argue this is the natural order of things. The latest issue of the McKinsey Quarterly publishes research which claims that over the past decade, spin-offs have substantially outperformed the market.

Over that period, apparently, US spin-offs have risen in value by 27 per cent on average in their first two years of life, compared to an average market rise of 17 per cent. Similar outperformance is claimed for so-called carve-outs, whereby a minority stake in a subsidiary is sold to the public; though so-called tracking stocks (see below) have underperformed.

McKinsey gives some familiar arguments for the outperformance of spin-offs: new incentives to management through stock

Sometimes de-mergers work...



Source: DataStream/FT

options, more strategic flexibility and so forth. It also proposes two market-related arguments: that spin-offs receive more coverage from analysts than before, and that they attract a new set of investors.

These two points are doubtful. Brokers' analysts do not have a monopoly of information; and it is naive to suppose that value lies undiscovered on the table until analysts point it out.

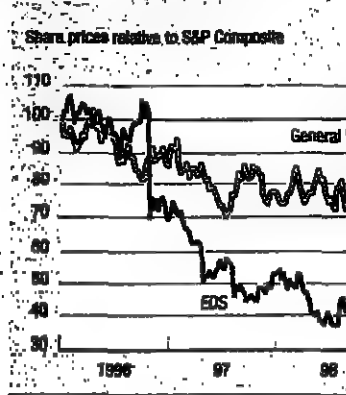
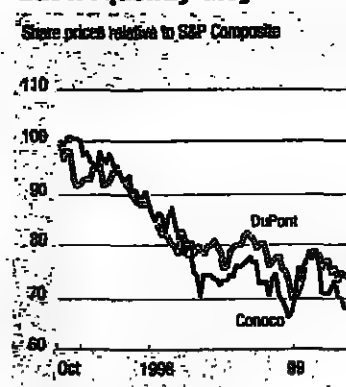
Equally, it is not immediately obvious why a new set of investors should value a company more highly than the old ones.

More generally, it is debatable whether companies become more highly valued simply because they are more visible. Markets are simply not that inefficient. Spin-offs are worth more because they perform more efficiently - or less, as the case may be.

This brings us back to the question of why so many recent spin-offs have done so badly.

One possible answer applies to small companies. In recent years, the smaller companies are by market value, the less well their shares have tended to perform. One example is the UK conglomerate Hillsdown, which had

but frequently they don't...



Source: DataStream/FT

split up in 1996. EMI has since underperformed the market by over 50 per cent, as had Thomson by the time of its takeover last year.

The truth is perhaps more basic: there are good spin-offs and bad ones. Imation, when spun off from 3M, was an inherently weak business, and has stayed that way. The market was disappointed by the Hewlett Packard spin-off because it thought the break-up insufficiently radical.

Any corporate fad, given time, will run its course. The break-up movement has had a longer and more profitable run than most.

It represents, after all, the flip side of the management philosophy of the 1970s and 1980s. That was the age of the conglomerate, when managers prized diversity and were driven more by size than by shareholder value.

Undoing that "has" proved hugely beneficial. But the barrel,

it seems, is almost empty. That does not mean there are no more break-ups to come. The management academic Andrew Campbell points out that there are still plenty of companies whose head office has a smothering effect on the operating businesses.

As the smothering continues, and the share price declines, break-up becomes inevitable - even if the overall break-up sums may not look attractive at present.

In another sense, the break-up movement may only be due for a lull. This is, after all, the age of mergers: not only more numerous than before, but a great deal bigger. In each case, we are assured that the fit is perfect and the focus improved. Often this is, to put it politely, nonsense.

In five years or so, some of those vast new entities will be under strain. The world will have moved on, and cracks will appear in the corporate facade. To switch the metaphor, the barrel will be full again. Then the supply of good break-ups will resume: though not, perhaps, for the best of reasons.

Any corporate fad will run its course. The demerger movement has had a more profitable run than most

Tracking your way up the charts

The latest trend on Wall Street may not deliver added value, says Richard Waters

When it comes to reaping the full value of their business, some US companies want to have their cake and eat it.

Faced with the choice of shedding assets or floating a minority stake on the stock market as a way of getting their share price up, some US companies have opted for a third way: issuing a tracking stock.

As the name suggests, these securities are designed to track the performance of various parts of a company's operations - even if the businesses themselves are still run together as part of an integrated whole, and even if the parts could not be spun off as a

separate unit. Issued sporadically over the past decade, such securities have become more common, reflecting two concerns: One is the pressure on many bosses to keep coming up with ideas to maintain a rising share price at a time when earnings growth is slowing. The other is the financial strain, and the opportunity, created by the information revolution.

This week Donaldson Lufkin & Jenrette, the US investment bank, announced a tracking stock for its online stockbroking business. Last week a flagging DuPont was trying to persuade Wall Street to put a value on its life sciences business.

Lured by the high valuations

of internet stocks, others are also likely to go down the DLJ route. The stock of Ziff Davis, a publisher of computer magazines, had been struggling until last autumn. Its decision to issue a tracking stock for its online business was sufficient to put a rocket under its share price.

The telecommunications industry has become a hotbed of such activity, reflecting the schizophrasia of companies that want to be seen both as growth stocks and the traditional dividend-paying utilities of an earlier era.

Sprint issued a tracking stock recently for its new mobile subsidiary, while US West, an early proponent, eventually took the ultimate step and split into sepa-

rate telecoms and cable TV companies. AT&T was also set on a tracking stock after its merger with Telecommunications Inc but backed out after a jump in its share price made the move unnecessary.

Though purists have never been happy with the idea, early opposition has given way in recent years to grudging acceptance.

Most tracking stocks fly in the face of the American corporate governance revolution of the past decade: they do not confer ownership rights over assets or give shareholders direct influence over the business in which they theoretically invest. But besides rejecting a proposed

tracking stock for the struggling retailer Kmart three years ago, shareholders have generally gone along with the idea.

"Some sort of action is normally better than none," says Patrick McGurn of Institutional Shareholder Services, a company that advises 500 institutions on corporate governance issues. Investors tend to "choke these things down and hope they don't do too badly".

To judge from the experience of early adherents such as USX, the steel, oil and chemicals group, the sum of the parts has not added up to more than the whole. According to Mr McGurn, tracking has yet to deliver long-term gains to shareholders.

OBSERVER

Bangemann Beggars Belief

Now that the European Commission has collapsed after revelations of fraud, nepotism and overpaid dentists, you might expect its members to be downcast.

But how wrong you'd be. It isn't just the prospect of three years at half of their generous pay that's keeping the commissioners' spirits buoyant.

Martin Bangemann, formerly Europe's main man on industry, claimed yesterday that he'd arranged the commission's collective jump overboard to clear his diary.

It was only the second time Bangemann had indulged in the Anglo-Saxon habit of starting a speech with a joke.

After the first, he said, an English friend told him that German jokes were not a laughing matter.

The portly commissioner, who will now have more time to sail his yacht, was careful not to break the rules which prevent criticism of the actions of any other commissioner.

Except on the commission's rules for importing bananas, which have managed to bring Europe to the brink of a trade war with the US that could bring cashmere sweaters, pecorino cheese and handbags into the fray.

The commission's line,

Bangemann said, after clearing his throat, was "bullshit". Cleverer is needed. Whatever happened to collective responsibility or, come to that, covering up for your friends?

Prodigal nephew

There's an election this June in South Africa and politicians are jumping from party to party with a heroic lack of ideological discrimination.

Even so, the party which once brought the world apartheid pulled off a coup yesterday.

The New National party announced that the Reverend Daisiwe Mandela, President Nelson Mandela's nephew, had resigned from the ruling African National Congress. He's going to set up a branch of the NNP in the traditional ANC stronghold of the Eastern Cape.

The Rev Mandela was said to be repelled by violence and the loss of moral values in the new South Africa.

Uncle didn't say a word.

Sexism Slain

Japan's government was brimming with pride when it announced a new law to "prohibit" sex discrimination yesterday.

Only a couple of problems. Names of offenders will be published, but the government admits it can't enforce the law. And though victims will be able

to take cases to court at their own expense, functionaries helpfully make clear any such process will take a "very long" time. Another great blow for equality.

Mining the net

Vancouver-based mining company Compuco Resources has found its home of plenty looking pretty empty of late.

There's been a devastating decline in the industry's funding, walls company boss Andrew Mulligan. Sometimes, he admits, it's looked like his company has been headed for that great mine-shaft in the sky.

So last autumn the company, which had a couple of promising but thirsty gold projects in Nevada, sold one project to fund the second. Now it is selling the second - but keeping small indirect stakes in both.

And its new business? Why, internet investment research of course. Unlikely though the move may sound, Compuco is merging with a company called Stockscape Technologies Limited.

It wants to raise \$25m to promote its grand new project. Investors may have gone cold on Compuco Resources, but, Mulligan reflects, they could barely refuse money to a company with a suitably bells-and-whistles name such as current favourite Stockscape.com, Inc.

And the craziest thing of all? He's probably right.

Pot luck

The fun-loving Swedish government, famed for its punitive taxes and strictly-controlled alcohol monopoly, is moving into gambling.

Yesterday, finance boss Erik Asbrink announced plans to open up to six state-controlled casinos, offering punters roulette, blackjack and crap dice, among other diversions.

For gaming addicts, a Baltic Las Vegas might sound like opening the brewery to alcoholics.

But Asbrink, who's got a highly developed social conscience, does not see it that way. "Social damage from gambling is not linked to casinos," he explains. Wanna bet?

Anguished Amoco

Disgruntled wits at Amoco, the US oil group taken over by BP, its British one-time rival, are taking out their angst at being underdogs on their own CEO.

The latest quip doing the rounds in Houston asks how underlings should address Sir John Browne, the former head of BP, and Larry Fuller, his counterpart at Amoco.

Easy, is the reply: Sir John, for the former, and Sir Render for the latter.

Financial Times

50 years ago

Terms Of Atlantic Pact
Mr Ernest Bevin, the Foreign Secretary, announced in the House of Commons yesterday that full agreement had now been reached between the Governments of the US, the UK, France, Canada, Belgium, the Netherlands, Luxembourg and Norway on the proposed North Atlantic Pact. It is intended that the Pact, which has a Preamble and 14 Articles, shall be signed in Washington in the first week of April. Article 5, which is the key to the Pact, states that an armed attack against one or more of the parties in Europe or North America shall be considered an attack against them all. Mr Bevin told the House that the Pact was one of the greatest steps towards world peace which had been taken since the end of the First World War. He added that the Pact was purely a defensive arrangement for the common security of the countries who joined it and it was not directed against anyone. Mr Bevin's statement was warmly welcomed from all sides of the House. For the Conservatives, Mr RA Butler said that the only regret was that Mr Churchill was not present on this historic occasion in view of the Initiative the Leader of the Opposition had taken.

THE LEX COLUMN

Disappointing Deutsche

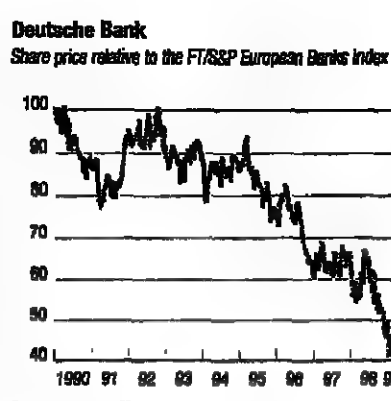
It has not been a good decade for Deutsche Bank. Europe's largest bank by market value in 1990, Deutsche now no longer ranks in its top 10. Yesterday's 3 per cent share price fall, on news of an unnecessarily large capital increase, takes its underperformance of the European banks index to 60 per cent. It has just become smaller, for example, than the UK's Abbey National, a quarter of its size in 1990. In a season of hostile bids - Olivetti's for Telecom Italia and Banque Nationale de Paris' for not one, but two French banks - Deutsche looks vulnerable. No wonder issuing DM2bn more equity than is needed to pay for Bankers Trust seems tempting.

Sadly, yesterday's results should give shareholders little confidence the share price rot has stopped. True, Deutsche's industrial holdings can now be managed more actively, which should release hidden value. And it is a small mercy it is not charging into France. But in its core business, Deutsche's cost/income ratio is heading in the wrong direction - rising 2.8 percentage points to 73.1 per cent. The restructuring programme has yet to have any real effect in Germany where it is needed most. And on the revenue side, both net interest income and trading profit are down on the year. There is no doubt that Deutsche is cheap, and for good reason. Its strategy of doubling up in investment banking, where its record is weak, is unduly risky for a bank in its state.

Chase Manhattan

Chase Manhattan has emerged from last year's market turmoil looking more impressive than anyone expected. While investment bank earnings slumped, Chase's strong performance has been rewarded with a soaring share price - a strong currency with which to pursue its goal of buying one of the jewels of US investment banking.

But does the strategy of acquiring an investment bank make sense for a commercial bank? The overwhelming evidence of the last 10 years is that such acquisitions are doomed to failure. Chase has a strong record in executing mergers, but Chase/Chemical and Chemical/Manufacturers Hanover were far simpler exercises. And above a minimum level of



critical mass - already enjoyed by all those on Chase's main wish-list of Morgan Stanley Dean Witter, Goldman Sachs and Merrill Lynch - extra bulk and capital are not an obvious advantage.

There is, though, an argument for doing a deal. Chase still has holes to plug in corporate and investment banking - notably equities, mergers and acquisitions, and international markets. Clearly, any such deal would succeed or fail on management issues. If Chase could thrash out a convincing management structure - unlike Citigroup - and had the stomach for a painful integration, it might just pull it off. The market, though, would need to be convinced that its experience would really be different from that of previous followers of this path.

Olivetti/Telecom Italia

Olivetti has come up with a suitably aggressive industrial plan for Telecom Italia. Its promise to cut €3.3bn (\$3.0bn) a year in costs is certainly more impressive than Telecom Italia's own plan, which envisages cost cutting of €300m. But, at present, that is largely besides the point. Because the bulk of Olivetti's intended offer is in cash and bonds, the benefits from wielding the axe would flow more to its shareholders than Telecom's.

There is, though, a puzzle here. Roberto Colaninno, Olivetti's chief executive, is envisaging 13,000 job cuts in Telecom's core business and another 6,500 elsewhere, making roughly 20,000 in total. Meanwhile, Telecom is looking at job

reductions of 40,000, of which half would be real cuts and the rest achieved through disposals. So on a like-for-like basis, it looks as though they are both going for around 20,000. How come, then, that Mr Colaninno is promising nearly three times the savings that Franco Bernabè, his counterpart at Telecom, is pledging? The answer seems to be that Mr Bernabè does not consider Olivetti a real threat and so is unwilling to put his best foot forward. The same attitude is behind his refusal to gear up Telecom's balance sheet more aggressively.

At present, this may not matter. Olivetti's €10-a-share offer is unlikely to tempt many investors. But if Olivetti ups the bid, say by 20 per cent, Mr Bernabè's complacency could cost him dearly.

Axa

If France's banks wanted an example of how profitable a domestic merger can be, they need look no further than Axa. The insurance group, which took over UAP about two years ago, more than doubled its life assurance profits in France last year. Its efficiency drive included cutting 2,000 jobs and a radical overhaul of the salesforce's incentives. Such evidence that restructuring pays should not be lost on shareholders in Banque Nationale de Paris - of which Axa is one - and Société Générale.

Axa shareholders should, however, be relieved to hear that Claude Bébér, chairman, is not wasting time acting as the "godfather" in the banking affair. Price wars in general insurance on the continent do not provide an easy background for Axa to hit its target of 15 per cent plus earnings growth. It has, of course, used some of its ample 1998 capital gains to top up reserves, helping to protect that precious profits growth trajectory in future years. Fresh momentum should also be provided in the UK and Germany by the acquisition of Guardian Royal Exchange.

And Axa is bound to keep on acquiring. Equitable, its US arm, could go for a US life assurance target: safe but probably expensive. Japan remains a tantalising prospect: cheap but dangerous. Meanwhile, a more obvious use of Axa's highly rated paper would be a continental move, such as building up its meagre presence in southern Europe.

Pressure on Serbs grows as Albanians sign Kosovo deal

By Patrick Graham in Paris and Guy Dimmore in Belgrade

Pressure mounted on the Serbs yesterday to back a peace deal on war-torn Kosovo after the Albanian delegation to crisis talks in Paris formally signed the peace agreement.

Serbia's continued refusal to sign the deal, which would give limited autonomy to Kosovo and has been brokered by the six-nation Contact Group in Paris, could lead to a fresh ultimatum from the British and French chairmen of the talks.

Slobodan Milosevic, Yugoslav president, is expected to be given a week to back the agreement signed yesterday by Albanian Kosovars, who comprise the majority of the Kosovo population.

Belgrade's headline stance also increased pressure on the Contact Group comprising Britain, France, Germany, Italy, Russia and the US to consider military action to force Serbia to back the accord.

Western embassies are preparing to evacuate their staff and families from Belgrade while Yugoslav army

commanders are pledging a fight to the end with Nato.

But diplomats and sources close to the Serbian government said both sides were playing what amounted to a high-stakes game of poker, with neither side fixed on any course of action.

"Prepare for martyrdom in the service of the fatherland," Gen Dragoljub Ojdanic, chief of staff of the Yugoslav armed forces, was quoted as saying by B-92, an independent radio station.

Diplomats pointed out that Serb forces had considerably increased the size and sophistication of their military presence around Kosovo during the talks.

This was seen in Paris as a deliberate provocation, with Mr Milosevic still convinced he could rely on a combination of Russia's persistent opposition to the military option and Nato reluctance to take action.

Hashim Thaci, the leader of the Albanian delegation, last night appealed to Serbs to sign up "because it is in their interests as well as those of the Kosovars". He

also called on Serbs to distance themselves from the Milosevic regime, saying that without greater democracy in Belgrade there was no hope of solving the conflict.

Miroslav Lazanski, military correspondent for Vecernje Novosti, a newspaper close to the regime, said that if attacked the Yugoslav army would retaliate with all means available - including its squadrons of MIG-29 fighters and short-range missiles.

Serbian military sources said Nato targets within range included some 10,000 troops in Macedonia preparing to enter Kosovo as the proposed peacekeeping force, ships in the Adriatic and troops based in Bosnia.

But two former senior members of Mr Milosevic's security forces said the army was unlikely to provoke Nato into what would be massive retaliation and that the Yugoslav president would call a halt after a first wave of western air strikes and agree to allow Nato into Kosovo to implement and enforce the autonomy agreement.

UN warns water shortages will raise prospect of wars

By Vanessa Houlder in London

Nearly a third of the world's population will face severe water shortages in 25 years' time, increasing the danger of war over water supplies, the United Nations said yesterday.

"Conflicts over water, both international and civil wars, threaten to become a key part of the 21st-century landscape," said Hans van Ginkel, UN under-secretary-general.

Nearly all of the 3bn increase in global population expected by 2025 will be in developing countries, where water is often scarce or comes in monsoons, hurricanes and floods, draining off the land quickly.

Most available fresh water is found in developed countries, which have just a fifth of the world's population.

Research published this week by the International Water Management Institute, a research centre in Colombo, Sri Lanka, predicts "absolute water scarcity" in 17 countries in the Middle East, South Africa and

the drier regions of western and south India and northern China.

Another 24 countries, mainly in sub-Saharan Africa, will suffer from extreme water scarcity. These are unlikely to be alleviated by water development projects because of a lack of funds.

Shortages are set to inflict particular damage on agriculture, which takes 70 per cent to 80 per cent of the world's available fresh supplies.

The World Commission on Water for the 21st Century, a newly formed think-tank supported by the United Nations and the World Bank, said that irrigated agriculture would have to provide 70 per cent of the increased food needed for the world's population in 2025.

But even if there was a steep increase in the efficiency of irrigation, the need for fresh water would expand by 17 per cent more than is currently available. If there are no changes, the demand would be for 58 per cent more water than is available today.

The UN says water shortages are

aggravated by pollution, inefficient use and the unsustainable use of underground water in aquifers.

Water supplies are also damaged by inefficient and fragmented management, a reluctance to treat water as an economic as well as a public good and inadequate recognition of health and environment concerns.

The UN predicts a sharp increase in the number of deaths from water-related diseases from the current 5.3m deaths and 3.35bn cases of illness each year. About half the population of developing countries is suffering from diseases caused by contaminated water.

The World Health Organisation this week said water safety was a growing problem in Europe because of intensive agriculture, industrialisation and over-exploitation of resources.

One in seven Europeans, particularly those in eastern Europe, do not have access to safe water. "Medieval" diseases such as cholera, typhoid fever and hepatitis A are making a comeback, it said.

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Visitors get to grips with virtual reality at the CoBIT computer fair which opened yesterday in Hanover, northern Germany. Page 27 Picture: AP

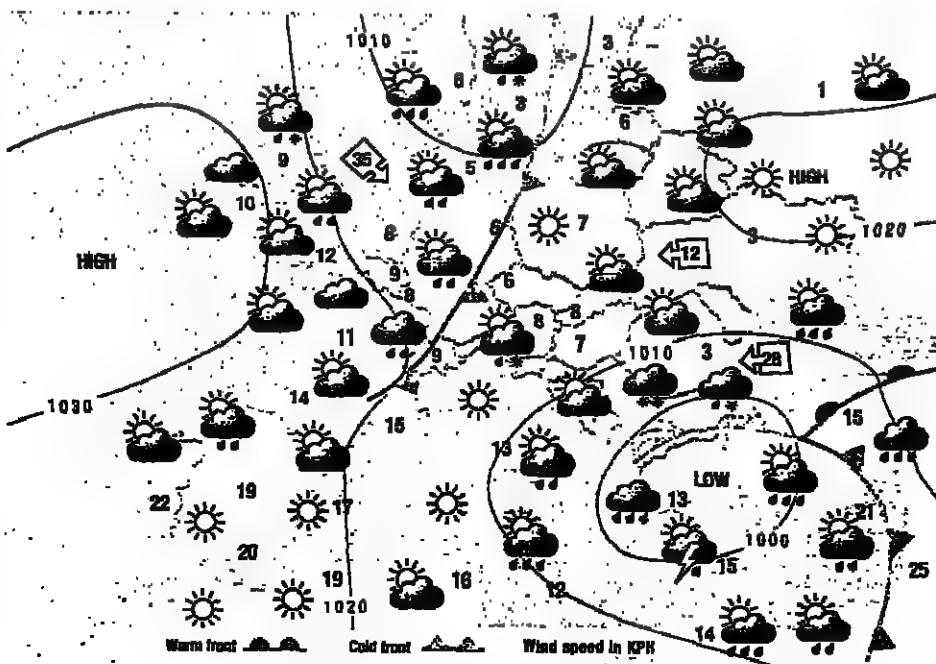
FT WEATHER GUIDE

Europe today

Spain and Portugal will be mostly sunny and warm, although the far north will have showers. Central and northern Italy will also be quite sunny but southern Italy, Greece and Cyprus will be very showery with local thunderstorms and some mountain snow. Eastern France, the Low countries, Germany and the northern Alps will be cooler with cloud and rain. Western France should escape and stay bright. Scandinavia will have sunshine and showers, with snow in the north. East and north-east Europe will be cold and it will snow in the eastern Balkans.

Five-day forecast

Much of Spain and Portugal will remain dry and bright with showers in the north. The central and eastern Mediterranean will be sunny with showers. Central and north-west Europe will be unsettled and chilly, although western France will stay fine.



Situation at midday. Temperatures maximum for day. Forecasts by *B* WEATHERCENTRE

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	26	Chengdu	15	Edinburgh	10	Madrid	18	Paris	15
Algeria	19	Chongqing	18	Fair	10	Moscow	12	Rome	14
Amsterdam	9	Guangzhou	22	Frankfurt	10	Nairobi	22	S. Paolo	14
Athens	13	Hong Kong	22	Geneva	10	Reykjavik	8	Singapore	32
Atlanta	16	Kobe	18	Chicago	10	Rio	18	Stockholm	3
B. Aires	27	London	10	Colombo	28	Roma	14	Strasbourg	10
B. Han	11	Luxembourg	10	Dubai	28	Manila	28	Sydney	18
		Dublin	10	Doha	28	Mexico City	25	Taipei	20
		Dublin	10	Dubrovnik	13	Montreal	0	Tel Aviv	21
						Munich	8	Tokyo	20
						Norfolk	27	Toronto	12
						Norwich	10	Vancouver	7
						Osaka	27	Venice	13
						Seoul	12	Vienna	9
						Singapore	25	Warsaw	5
						Stockholm	3	Washington	15
						Strasbourg	10	Wellington	19
						Sydney	18	Zurich	10
						Taipei	20		
						Tel Aviv	21		
						Tokyo	20		
						Toronto	12		
						Vancouver	7		
						Venice	13		
						Vienna	9		
						Warsaw	5		
						Washington	15		
						Wellington	19		
						Zurich	10		

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INSIDE

Turkey's industrial change focus
Koc and Sabanci, two of Turkey's conglomerates, are seeking to enter growth industries such as telecommunications and energy in a bid to defy the economic slowdown and liquidity squeeze that has put the survival of the country's industrialists in doubt. Page 26

Foreigners move for Israel software
The acquisition by BMC Software of Houston of Israel's Dimension Software, was the biggest foreign acquisition of a local software company. But as more overseas groups move into Israel's software sector, it may become a subsidiary of Silicon Valley, and its companies may never mature into big players. Page 27

China Steel confident crisis is over
China Steel, Taiwan's biggest steel maker, saw a drop in year-on-year profits of more than 60 per cent in the first two months of 1999, but it remains confident that the worst effects of the Asian financial crisis have passed. Page 24

Life hits out at new futures rules
The London International Financial Futures and Options Exchange has criticised rules that would govern the access of non-US electronic futures exchanges to US customers. Brian Williamson, chairman (left) described the proposed rules as "obstructive". Life is developing an electronic trading platform, and is spending an estimated \$5m on communications hubs in the US. Capital Markets, Page 32

Elections fail to move Estonia bourse
The parliamentary elections in Estonia barely moved the TALSE index. But investors remain confident that the three-party alliance will confirm Estonia's commitment to liberal economic policies and accession to the European Union. Emerging Market Focus, Page 44

Australian exploration funding to fall
Australian minerals and exploration expenditure is set to tumble 30 per cent to A\$1.5bn (US\$940m) this year, according to the Australian Bureau of Agricultural and Resource Economics (ABARE), which said such a decline would not be easily reversed. Commodities, Page 34

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Westland and Agusta to merge

Anglo-Italian helicopter venture will have 20% of market

By Alexander Nicoll in London and James Ritz in Rome
The consolidation of Europe's aerospace industry moved forward yesterday with an agreement to merge two helicopter manufacturers, GKN Westland of the UK and Agusta of Italy. GKN, the UK engineering group, and Finmeccanica, the state-controlled company, have agreed to combine their helicopter interests into a joint venture that will have 20 per cent of the world market. The deal was welcomed by George Robertson, UK defence secretary, who said: "There is an urgent need to restructure Europe's aerospace industry to ensure that it can compete effectively in global markets and contribute to the strengthening of European defence." European governments are seeking rationalisation to compete with US rivals following the fall in defence spending since the end of the Cold War. The GKN/Agusta deal could pave the way for further deals - the other players are Boeing, Bell and Sikorsky in the US and Eurocopter, a joint venture between Aerospatiale of France and DaimlerChrysler Aerospace of Germany. GKN and Finmeccanica announced last April they were discussing an "alliance of equals" between their helicopter businesses. Yesterday they said negotiations had resulted in agreements being signed, subject to regulatory approvals. The companies said their assets would be contributed "on a broadly debt and cash free basis". The new venture will have an \$8.5bn order book. "The enhanced technical and marketing power of the new company... will create significant value for GKN and Finmeccanica shareholders," the companies said. David Wright, a GKN director who heads its aerospace arm, will be chairman of the venture. Amedeo Caporaletti, Agusta chief executive, will have the same title in the new company. Richard Case, chief executive of GKN Westland, will be managing director. An executive at Finmeccanica said the agreement was vital to the turnaround of the industrial conglomerate. "This is an important development but it must be seen as a point of departure not a point of arrival. We do not want to simply manage this joint venture but actually make it grow." Alberto Lima, Finmeccanica's chief executive, has sought to boost its value by entering European joint ventures. Its Alenia subsidiary last year launched a 50/50 joint venture with Marconi, the defence business being sold by GEC to British Aerospace. Finmeccanica is holding talks with Casa of Spain and seeking to consolidate its space activities with those of other European companies. The Westland deal is the second stage of a restructuring of GKN's defence interests. Last year it sold its armoured vehicles business to Alvis of the UK, in which it took a 29 per cent stake. **Moment of Truth, Page 21**
Raytheon seeks link-ups, Page 25

US REGULATOR TO REVIEW AUDITOR'S PLANS

KPMG warned over move to float affiliate

By Jim Kelly
audits five of the 25 largest US-based multi-nationals - General Electric, Citicorp, Motorola, Xerox, and PepsiCo. US revenues from consulting are running at \$1.5bn in 1998 - up 50 per cent on the previous year. KPMG is considering a public offering - or alternatively a private offering - of between 20 and 30 per cent of the new business. A valuation of up to \$4bn for the entire affiliate has been suggested although the offering will be breaking new ground. The SEC warning will be seen as part of its campaign to alert the markets to the extent to which it believes US financial reporting has been undermined by a lack of independence among auditors. The letter makes it clear that KPMG has already offered to bar audit clients from holding an interest in the new business. The SEC said such ownership "would affect the independence of the auditor in both fact and appearance". Ms Turner has told KPMG a "quality control system" needs to be in place prior to the offering. It should be reviewed with SEC staff and then inspected by "peers" from outside the firm. If an investment slipped through the system it would mean KPMG could not audit the client's accounts. "Disposal of the shares by the client or affiliates would not cure the lack of independence," said Ms Turner. KPMG, the world's fourth largest accountancy firm, has been warned by US regulators that rapid implementation of plans for an initial public offering of part of its consultancy business could cost it its right to audit public companies. Lynn Turner, chief accountant to the Securities and Exchange Commission, has told KPMG by letter that the firm's plan to create an affiliate - "K Consulting" - must first be reviewed by the Independence Standards Board. The board seeks to ensure that auditors are independent of the companies whose accounts they are certifying. The letter confirms KPMG's status as a pioneer in establishing the ground rules for a public offering of a consultancy allied to a public audit firm. It is clear the SEC is treating KPMG as a test case. Rivals in the big five global accountancy firms will be watching to see if regulators allow public auditors to become linked to public offerings. They need the cash to offer stock options and fund acquisitions and investment. The letter says that the review has the "highest priority" and is expected to be over by December. KPMG would have to comply with any ruling. The SEC would "vigorously oppose" any suggestion that KPMG could pre-empt a ruling by seeking an early stock exchange listing. KPMG



Bernard Arnault, chairman of French luxury goods group LVMH, presenting his annual report yesterday. He reported that the group had taken a \$257m (\$283.3m) charge for restructuring at its DFS duty-free shopping chain. Gucci rushes to publicise results rise, Page 26

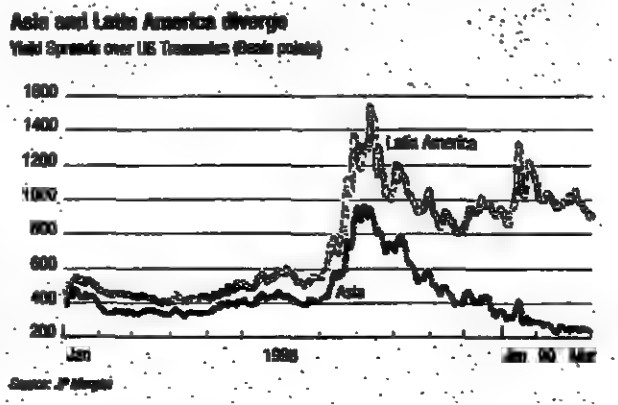
Brazil set to delay \$8bn electricity privatisation

By John Harman in São Paulo
Brazil may have to delay privatisation of the generating assets of Eletrobras, the electricity company, which it hoped would raise \$8bn. The sale, planned for the second half of this year, is a main element of the country's privatisation programme. Eletrobras said it had postponed a shareholders meeting, scheduled for next week, to ratify a government decision to split the company's generation and transmission operations. It has not set a new date for the meeting. Investment bankers advising the government on the complex Eletrobras sale had warned that the privatisation timetable was over-ambitious. One banker said: "I do not think they can sell [Eletrobras] this year even if they push hard. They could slot in [another asset] instead, but they have to face the fact that the world is not sure if it likes Brazil." Private sector economists have long doubted that the government would be able to raise more than \$13bn in revenues this year. Many deals, such as Eletrobras, may have to be postponed. Foreign companies have become increasingly wary of investing in Brazil after the Real crashed by 40 per cent in January. Last year, in contrast, the country was able to sell state companies for considerable premiums - the Telebras telecommunications company sold in July for \$15.92bn, or 63 per cent above the minimum price. Analysts say political opposition to the sale is growing. In addition, the transaction is dogged by complex technical and regulatory issues. Firmino Sampaio, Eletrobras president, said last week that it would be difficult to meet the government's privatisation timetable. He said "the [privatisation] timetable is tight, requiring the sale of one generating [company] per month". Although devaluation has made Brazilian assets cheaper in dollar terms, it has also depressed companies' cashflow and profitability. Furthermore, Brazil's increased risk profile has made it harder to raise finance for privatisations. The investment banker said devaluation now means Brazil has "one of the lowest generating tariffs in the world". Analysts say the Eletrobras privatisation is particularly complex because Brazil has one of the most complicated energy systems in the world with most of its power generated by hydro-electric dams. Brazil and Venezuela's benchmark Brady bonds is about 1,000 basis points. Argentinian bonds are trading at spreads of around 700 basis points over US Treasuries. Only Mexico, at spreads of 425 basis points, is trading close to Asian debt levels. However, bankers say that Latin American governments have much greater need to tap the international markets. "It is a bit of a Catch 22," said one banker. "Now that Asian governments don't need the money, the markets are quite happy to lend to them. It's the other way round for countries like Brazil." Most Asian countries, notably Korea and Thailand, have seen a sharp fall in domestic interest rates. Korea, in particular, which has benefited from having its investment grade credit rating restored by the rating agencies last month, has stepped up issuance of domestic bonds to take advantage of lower yields. This has diminished its need for external funds. Similarly, Malaysia and Thailand have taken advantage of buoyant domestic liquidity to step up the supply of government bonds. Of the leading Asian economies, only the Philippines and possibly Thailand are expected to visit the foreign currency bond markets in the next few months. In contrast, both Brazil and Argentina, which has tapped the international markets several times this year at quite expensive rates, need to raise relatively large amounts of foreign capital this year. "There are signs that the market is beginning to offer better rates to the Latin Americans," said one banker. "But this is still early days."

Asian economies show signs of recovery

International bond markets deliver vote of confidence that Far East crisis can be consigned to history

By Edward Linn, Capital Markets Editor
The Asian financial crisis is over, according to the international bond markets. Yields on Asian sovereign bonds have fallen steadily in the past few weeks and are beginning to approach levels seen before the crisis erupted in July 1997. "We have turned full circle," said Carlos Cordiero, managing director of Goldman Sachs, in Hong Kong. "The markets are pricing in a full recovery in Asia." With the exception of Indonesia, whose banking sector remains mired in debt, the spread levels - or premium - of Asian bonds over US Treasury bonds have plummeted in recent weeks. Spreads on the 10-year benchmark of the Korea Development Bank, which acts as a proxy borrower for the sovereign, have dropped from almost 1,000 basis points over 10-year US Treasury bonds last October to about 230 basis points this week. Similar rallies have taken place in Philippines and Thai debt. Even Malaysia, which was heavily criticised for imposing capital controls on portfolio investments last September, has seen its proxy benchmark bond issued by Petronas, the state oil company, tighten to a spread of about 300 basis points over the US benchmark. "Asian governments now have full access to the international bond markets at reasonable funding levels," said Marc Jones, managing director of J.P. Morgan in Hong Kong. The rally in Asian bond prices stands in contrast to the performance of most Latin American countries, especially



Brazil and Venezuela's benchmark Brady bonds is about 1,000 basis points. Argentinian bonds are trading at spreads of around 700 basis points over US Treasuries. Only Mexico, at spreads of 425 basis points, is trading close to Asian debt levels. However, bankers say that Latin American governments have much greater need to tap the international markets. "It is a bit of a Catch 22," said one banker. "Now that Asian governments don't need the money, the markets are quite happy to lend to them. It's the other way round for countries like Brazil." Most Asian countries, notably Korea and Thailand, have seen a sharp fall in domestic interest rates. Korea, in particular, which has benefited from having its investment grade credit rating restored by the rating agencies last month, has stepped up issuance of domestic bonds to take advantage of lower yields. This has diminished its need for external funds. Similarly, Malaysia and Thailand have taken advantage of buoyant domestic liquidity to step up the supply of government bonds. Of the leading Asian economies, only the Philippines and possibly Thailand are expected to visit the foreign currency bond markets in the next few months. In contrast, both Brazil and Argentina, which has tapped the international markets several times this year at quite expensive rates, need to raise relatively large amounts of foreign capital this year. "There are signs that the market is beginning to offer better rates to the Latin Americans," said one banker. "But this is still early days."

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COMPANIES & FINANCE: ASIA-PACIFIC

ASIAN STEEL BIGGEST COMPANIES ARE FINDING DIFFERENT WAYS OF COPING WITH THE SERIOUS PROBLEMS THAT HAVE BESET THEIR INDUSTRY

Nippon warns NKK tries to forge ahead despite blows

profits could plunge 83%

By Alexandra Harvey in Tokyo

Nippon Steel, Japan's leading steel maker, yesterday warned investors that pre-tax profits would collapse 83 per cent this year because losses from unprofitable subsidiaries would be larger than expected.

The company also revealed it would record extraordinary losses worth ¥70bn (\$591m) to cover a shortfall in pension reserves and compensation for retired workers. The news follows a recent announcement by Toyota Motor of a ¥300bn shortfall in pension funds.

Nippon Steel said consolidated pre-tax profits would be ¥15bn on sales of ¥2,800bn, compared with earnings of ¥86.5bn on turnover of ¥3,076.5bn last year. The dividend would be ¥1.5 a share, compared with ¥2.5 last year.

The main reason for the sharp decline in profits was because several subsidiaries were generating losses of between ¥1bn and ¥2bn, the company said, but declined to identify which. However, Nippon Steel has businesses in computer systems and chemicals that are believed to be operating at a loss.

Parent pre-tax profits were expected to more than halve to ¥50bn, on sales of ¥1,920bn. The group did not expect to generate a profit at the net level, largely because of ¥38bn of valuation losses from its equity portfolio.

The withdrawal from semiconductor production in Japan following the sale of its chip business to United Microelectronics, a Taiwan-based foundry maker, last September generated ¥110bn in losses, on top of ¥32bn in valuation losses from the sale of equity holdings in affiliated companies.

But the costs of compensating employees retiring early as part of its restructuring plan and a shortfall in

its pension reserves, resulting from the decline in interest rates, would total ¥70bn. Although the gap between its obligations to pension recipients and its pension fund reserves had risen in recent years, the sharp fall in interest rates this year had created a far larger shortfall.

Because accounting rules until now have not forced Japanese companies to record the size of their pension liabilities on their balance sheets, many companies have been able to avoid taking such a loss.

However, when new accounting principles come into effect in 2001, some industry officials worry weaker companies could suffer huge losses and sharp falls in their stock price. This could also hurt their credit rating making finding new sources of funding difficult.

Although total pension provisions by Japanese companies are believed to be about ¥70,000bn, analysts estimate the total shortfall could be between ¥40,000bn and ¥100,000bn.

Meanwhile, the outlook for the industry this year darkened after Akira Chihaya, Nippon Steel president, said he expected steel output to fall to 89m tonnes in the fiscal year starting in April. Nippon Steel also said it would be merging Osaka Steel and Kansai Bille, two electric furnace subsidiaries, to cut costs.

Nisshin Steel announced it would cut its dividend from ¥5 to ¥2.5 this year, sending its shares down 1/8, or 4.4 per cent, to ¥131. The group is exporting a pre-tax loss of ¥40bn on turnover of ¥390bn, compared with profits of ¥13.2bn on sales of ¥462.8bn last year. The company said it planned to deepen executives' salary cuts from 13 to 30 per cent starting next month.

By Alexandra Harvey

With a weak smile, Masayoshi Ogura, chief of investor relations at NKK, Japan's second largest steel company, wearily repeats what he has told analysts and investors countless times in recent weeks.

Despite its expense, mounting losses and debts, Keihin Works, a blast furnace with a 4m tonne a year capacity located outside Tokyo, is kept running because it is an essential part of the company's distribution network. Shutting it down simply because demand had slowed would be unfair to the company's customers and employees.

His argument runs to the core of the problems in corporate Japan. In a sense, NKK has become symbolic of the steel industry's plight. Pilloried by a series of blows that began with the collapse of demand in Asia followed by the US anti-dumping levies, NKK has suffered a sharp decline in profitability and scrambled for ways to cut costs.

But the group has met opposition from unions and the plunge in land prices, which make closing facilities far more costly than keeping them open. NKK's response

has instead been to try to persuade investors that it is making the right decisions. Mr Ogura and other executives have launched an unusual campaign, including tours of the loss-making Keihin Works plant. So far results have been mixed. Some analysts seem convinced NKK has made the necessary cuts to weather the downturn in demand.

But investors have not been so forgiving. NKK is expecting pre-tax losses of ¥26bn (\$226.4m) on turnover of ¥1,020bn in the year that ends this month. The share price has sunk nearly 50 per cent since last July, below the ¥100 benchmark.

Mr Ogura says annual losses at Keihin Works were smaller than believed and the group would return to profit at the pre-tax level in 1999. The company would also meet ¥40bn in bond redemptions scheduled for this month - the subject of market concern.

"We have taken the appropriate measures to deal with these payments," says Mr Ogura. "This is partly because the group has received additional funding from several private banks to cover the absorption of Toa Steel, a failed electric furnace subsidiary, and from

Japan's big five steel companies



the Japan Development Bank, the government-backed institution which has become NKK's largest lender amid the current difficulties. This comes when its financial position is already weak, consolidated interest-bearing liabilities totalled about ¥1,570bn as of March 1998. Annual losses at Keihin

Works, which analysts had estimated to be between ¥15bn and ¥20bn, were only about ¥10bn, reveals Mr Ogura, and it would begin generating profit in the year that begins this April, following cost cuts. But most of the improvement would be from a restructuring including 3,300

job cuts by the end of 1999 and a withdrawal from memory device production, a business which has been in the red for five years and is expected to generate losses of ¥13bn this year. This should allow the company to lower fixed and variable costs by ¥50bn in 1999 and reach its target of ¥20bn in pre-tax profits in fiscal 1999, says the company.

However, part of the apparent improvement is clearly due to lower iron ore and coal prices negotiated with the company's chief suppliers in Australia. Japanese steel makers recently bargained for a 10.2 per cent reduction in lump iron ore prices, an 11 per cent cut in iron ore fines, and a 17 per cent price cut for coal, according to Conny Jamieson, analyst at Warburg Dillon Read in Tokyo.

The danger is that lower raw material prices will prompt NKK's main customers, including cost-conscious carmakers, to demand lower steel prices and slow NKK's return to profitability.

With steel demand expected to fall from 102.8m to 90.5m tonnes this year, and Japanese banks increasingly wary of risky lenders, the challenges facing NKK are immense.

Exports tumble after US dispute

Japan's finance ministry revealed yesterday that steel exports plunged 33.5 per cent in February from a year before, the biggest drop since a 37 per cent fall in September 1995, due to sluggish shipments to the US and Asian countries, agencies report from Tokyo.

Japan's exports to the US, the focus of a trade dispute between the two countries, tumbled 49.4 per cent, apparently hurt by a preliminary ruling in February by the US commerce department that Japan is dumping steel in the US.

Criticising Japan for attempting to export its way out of recession, the department set preliminary anti-dumping duties to be levied on hot-rolled steel imports from Japan at between 25.14 per cent and 67.59 per cent.

In a related move yesterday, the US House of Representatives passed a bill to limit steel imports for three years to levels recorded in July 1997, when the Asian financial turmoil began.

Japan's overall steel exports in February were also dragged down by a 29.8 per cent fall in shipments to other Asian countries.

Meanwhile, the head of the Japan Iron and Steel Industry Federation said yesterday that based on preliminary analysis and discussion, the group expects domestic steel production for the fiscal year beginning in April to total 89m tons, about 2m tons lower than originally projected.

The industry body expects domestic demand to drop by more than 1m tons and exports to drop sharply during the next fiscal year.

Demand for the April to June quarter is seen as worsening, however, and the 89m tons forecast was based on expectations for a recovery in demand during the second half. The federation estimates output for the current fiscal year of 93m tons.

Painful results fail to hurt China Steel

By More Dickie in Taipei

China Steel's profits plunged more than 60 per cent year-on-year in the first two months of 1999, but the painful results have failed to cloud the air of quiet confidence at Taiwan's biggest steelmaker.

The company thinks the worst effects of the Asian financial crisis may now have passed and that the stage is set for a real, if slow, recovery in the steel market both on the island and across the region.

"From the fourth quarter of last year and especially the beginning of this year we can feel very, very strongly and clearly that the entire economy in Asian

countries is stabilised - and also coming back a little bit," says Wang Chung-yu, China Steel's chairman.

Mr Wang sees signs the steel market has found bottom in Taiwan and a good chance that a revival in exports to south east Asia - a market that all but disappeared in the second half of 1998 - will combine with government stimulus spending to create growth in the second quarter.

Even with that forecast - which some analysts think will prove too optimistic - 1999 will hardly be an easy year.

The company is aiming at a gross profit margin of around 10 per cent on sales of between T\$92bn

(US\$2.8bn) and T\$95bn, admirable by industry standards, but painfully low for China Steel. Pre-tax profits were T\$16.8bn in 1998, down from T\$20.1bn the year before.

Cut-price competition from Brazil and Russia and excess supply from Japanese and Korean companies blocked from exporting to the US and Europe have forced China Steel to slash prices to retain its dominance in the Taiwan market.

Mr Wang says the 10 per cent target was set more in hope than expectation late last year.

"We thought it would be very difficult," he says. "But with the improved situation we have a very good chance

to achieve this target." Analysts say the market could still disappoint, however. "Talk of a price rebound might be a little premature," says John Brebeck of Jardine Fleming Taiwan.

However the market develops, China Steel, which produced more than 9m tonnes of steel last year, will benefit from its status as one of the world's most efficient producers. "After this crisis they are going to be in a much better position than the others," says Ken Chen, analyst at ING Barings.

China Steel has cut costs 15 per cent since early 1998, although the company declines to say how much of the savings came from mak-

ing staff fly tourist class and how much from squeezing suppliers.

Mr Wang says it will take three years for the steel markets of most Asian nations to recover to pre-crisis levels. But, far from considering pulling out of projects in Malaysia and Vietnam, the former engineer says China Steel is discussing new ventures in the region.

Indeed, China Steel's performance in difficult times could derail government plans to sell some of its 40 per cent stake in the company.

"Some people in the government want to keep the shares because they get such good dividends," Mr Wang says.

KPN: healthy and growing.

KPN surpassed expectations in 1998. The company lifted revenues by 12.3%, increased net income from ordinary operations by 5.1% (above the expected 2% to 4%) and achieved a record 23.3% volume growth together with an 11% reduction of prices. Growth came mainly from mobile telephony and international activities.

With more than 8 million customers connected to its fixed network and over 2 million mobile (GSM) phone users, KPN retains a leading position in the

Dutch telecommunications market. KPN seeks to maintain its status as the preferred supplier in the Netherlands and to consolidate its global market position by joining forces with partners abroad.

Headlines:

-KPN reported net income of NLG 1,515 million in 1998 after taking a reorganization provision of NLG 800 million (NLG 520 million after tax) announced in 1998.

-Mobile phone penetration has risen in the Netherlands from 11% to 21%, making the Dutch mobile market one of the fastest growing in Europe.

-The Internet was the main driving force behind the growth of volume of national telephony. The Internet accounted for 21% of all local traffic (compared with 13% in 1997); it was responsible for 40% of the total growth of traffic. The number of ISDN channels almost doubled to 1.57 million.

-Data communication revenues went up by more than 38%.

-KPN joint forces with Qwest (KPNQwest will install a European electronic superhighway with a link to the USA).

-KPN entered into a joint venture called KPN Orange (to create the third mobile network in Belgium).

Prospects for 1999:

The Dutch telecommunications market will continue to grow in 1999 through relatively favorable economic conditions and the growing need for accessibility. The prime growth markets nationally are the Internet, data communication and mobile telephony.

Internationally, KPN will concentrate on further expanding the position it has established. KPN expects its interests in Telecom Eirann of Ireland,

In millions of guilders	1998	1997	Growth
Revenues	17,719	15,789	12.3%
Operating income	2,499	2,389	4.6%
Net income (from ordinary operations)	2,035	1,936	5.1%
Net income (after provisions)	1,975	1,876	5.3%
Dividend per share	NLG 2.33	NLG 2.23	4.5%
Earnings per share (from ordinary operations)	NLG 4.38	NLG 4.15	4.1%

SPT Telecom of the Czech Republic and Telekom of Indonesia to make a further contribution to group results. KPNQwest will contribute immediately to the growth of KPN's revenues and profits. KPN Orange will incur substantial initial costs for some years yet.

Measures taken by OPTA in 1998 will have a knock-on effect in 1999. In November 1998, KPN published an announcement stating that accelerated depreciation of the infrastructure in the coming years would push up costs by approximately NLG 400 million. It also stated that OPTA's ruling on tariffs as of January 1, 1999 would bring down the company's revenues by approximately NLG 330 million per year.

These facts have led KPN to expect its operating result from national activities to drop by between NLG 700 million and NLG 800 million in 1999 as compared to 1998.

Nevertheless, the KPN Board of Management expects net income from ordinary operations to amount to approximately NLG 1.6 billion in 1999.

KPN expects that continuing market expansion, the introduction of new services, further cost savings, technological innovations and a further growth

of contribution to profits from international activities will bring the net income from ordinary operations back to the level of 1998 within two or three years.

Dividend:

The KPN Board of Management intends to pay a dividend over the 1998 financial year of NLG 2.33 per ordinary share of NLG 1 par value. After deduction of the interim dividend of NLG 0.80 already paid in 1998, the final dividend will be NLG 1.53.

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COMPANIES & FINANCE: INTERNATIONAL

NEWS DIGEST

PROPERTY

Sun Hung Kai earnings tumble 20% midway

Sun Hung Kai Properties, one of Hong Kong's biggest property groups, disappointed the market with a 20.4 per cent fall in interim net earnings, from HK\$5.94bn to HK\$4.72bn (US\$609m) in the half-year ended December 31. Turnover rose 38 per cent from HK\$12.65bn to HK\$17.48bn.

Analysts had expected the group to book sufficient property sales before the year end to be able to report a modest profit. The group said total property sales were HK\$11.61bn, an increase of 21 per cent over the same period last year.

Sun Hung Kai Properties has a land bank in Hong Kong of 50.5m sq ft, of which 18.7m sq ft is completed investment property and 31.8m sq ft is under development.

Walter Kwok, chairman, sounded an optimistic note for the beleaguered housing market, where prices have fallen 50 to 60 per cent from the peak in late 1997. He said government initiatives and a "more positive attitude" to lending by banks have helped the residential market.

"The group believes that the residential property prices have already stabilised, with the residential sector being healthy and without signs of speculative activity, as buyers are mainly end-users," he said.

Another factor aiding the market is the projected population boom, driven by immigrants from across the border. Mr Kwok foresaw a less rosy outlook for the commercial sector, with pressure likely to continue in the near term on office rentals as supply expands.

Sun Hung Kai Properties, like other Hong Kong corporations, has sought to reduce its gearing, which has been reduced to below 15 per cent. Louise Lucas, Hong Kong

Cheung Kong advances

Cheung Kong Infrastructure, a division of Li Ka-shing's business empire, yesterday posted an 18 per cent rise in annual net profits, from HK\$2.41bn to HK\$2.85bn (US\$367m) last calendar year. The rising profits, which were at the bottom end of market expectation, buck the trend of a broadly disappointing reporting season in Hong Kong, which has been marked by high levels of provisions and dwindling earnings.

CKI, however, has benefited from China's drive to stimulate the economy through infrastructure development. Although the mainland contributed just 18 per cent of total profits (the balance came from Hong Kong), it is a growing slice: infrastructure projects across the border posted a 58 per cent increase in profit contribution.

Victor Li, chairman, said a similar infrastructure trend was under way in Hong Kong, where the government has affirmed its intention to accelerate the investment process. In China, infrastructure development is a priority at various levels of government.

"With the majority of projects becoming operational, our infrastructure portfolio in China has matured, and is poised to report continued growth. We are confident the internal growth of all the core businesses will continue," he said.

CKI Materials, whose activities include cement, is also expected to piggyback on Hong Kong's increased spending on public housing and infrastructure. The biggest driver of profits, the group's 38 per cent stake in Hongkong Electric, the monopoly electricity supplier on Hong Kong Island, reported a net profit increase of 5.5 per cent earlier this month.

CKI boasts a strong balance sheet, a key asset at a time of deflation and tight credit. At the end of last year, the group's net debt to equity ratio was 6.7 per cent, with cash in hand of HK\$1.35bn and debt of HK\$3.1bn.

Earnings per share for last year rose by 10 per cent, from HK\$1.15 to HK\$1.27. Shareholders are to receive a final dividend of HK\$0.26, giving a total annual payout of HK\$0.38, an 18.75 per cent increase over the HK\$0.32 paid the previous year. Louise Lucas

SOUTH KOREA

Banks to merge

Cho Hung Bank, one of South Korea's big six commercial banks, yesterday said it would merge with Chungbuk Bank, a provincial bank, on May 3 under a state-sponsored restructuring of the nation's troubled banking sector.

The government earlier ordered Cho Hung to take over Chungbuk after it failed to conclude negotiations on the merger of two other small banks, Kangwon Bank and Hyundai International Merchant Bank, because of a dispute over equity stakes.

The state promised to recapitalize financially troubled Cho Hung once its merger with Chungbuk is completed. Cho Hung is still hoping to take over Kangwon Bank, which merged with Hyundai International Merchant Bank in February. John Burton, Seoul

JAPANESE RETAILING

Mitsukoshi warns on profits

Mitsukoshi, a leading Japanese department store, yesterday issued a profits warning, downgrading its forecast for group net losses from ¥3.5bn to ¥11.5bn (\$97m) for fiscal 1998. It also revised down its prediction for group pre-tax losses before exceptional items from ¥2bn to ¥4.4bn.

The company blamed the downgrade on weak consumer spending amid a deepening recession. Last month it issued a profits warning on an unconsolidated level, citing sluggish sales and restructuring costs. In particular, the department store operator said that it would post a ¥11.3bn extraordinary loss from its withdrawal from a failed golf course development project.

But Mitsukoshi yesterday revised up its parent forecast, upgrading its prediction for unconsolidated net losses from ¥26bn to ¥24.7bn. It also said that it now expected a ¥80m unconsolidated pre-tax profit before exceptionals instead of the ¥800m loss it predicted last month. The company said that store sales had been better than expected towards the end of its fiscal year on February 28. It also attributed the upgrade to sales and general cost reductions.

Mitsukoshi's announcement yesterday was made after the market closed. Its shares fell ¥19, or 5.6 per cent, to ¥320 in a falling stockmarket. Naoko Nakamae, Tokyo

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HONG KONG INVESTMENT FOCUS SHIFTS TO REDUCING DEBT AND CONCENTRATING ON UTILITIES

Citic Pacific suffers 62% drop in profits

By Rahat Jacob in Hong Kong

Citic Pacific, the Hong Kong arm of Beijing's main investment vehicle, yesterday reported net profits of HK\$2.8bn (US\$361m), down 62 per cent from HK\$7.4bn in 1997 when profits were boosted by one-off gains, including the sale of the company's stake in Hongkong Telecom for HK\$3.3 bn.

The company said it was actively pruning its debt load and had reduced its debt load from HK\$21.2bn at the end of

1998 to HK\$18.3bn. "We will continue to make investments but it is more important for us to lower our liabilities," said Larry Yung, chairman.

The company sold its 25 per cent stake in a Shanghai power plant in early 1999 to concentrate on managing the power businesses it owns. It also sold water plants in Nanjing and Wuxi and a toll road in Wuxi. Mr Yung said the company had netted US\$300m from the sale of these assets.

"They have been divesting a number of their infrastructure projects in China because the projects are not profitable and in some cases the partner may not be able to honour the minimum guaranteed return," said Carleton Poon, a director of Worldsec International, a Hong Kong based brokerage.

Citic Pacific's profits were below the market consensus, largely because income from the sale of properties in a Hong Kong development will be booked in 1999, instead of

1998 as analysts had assumed.

Excluding the effect of the non-recurring gain in 1997, the company's profits fell 32 per cent because income from its stake in Cathay Pacific, Hong Kong's main airline, and its property businesses slumped. Cathay recently announced its first loss in 35 years.

Citic also has stakes in one of Hong Kong's power companies, two of the city's cross-harbour tunnels, and infrastructure investments

in China. The company said it planned to invest HK\$3.6bn in power plants in China over the next three years.

It said it expected about 70-75 per cent of its profits in 1999 to come from its infrastructure investments.

Citic was once touted as a China growth prospect, but the company is looking more like a utility, said observers. "It may be dull, it may be boring, but at least you have a decent utility," said Mr Poon.

Citic said that 86 per cent of its flagship office tower in Hong Kong had been let. Rents and capital values in the Hong Kong real estate market have come down sharply since the property bubble burst in late 1997.

Turnover dropped from HK\$16.79bn to HK\$13.69bn in 1998. Citic announced a final dividend of 50 cents, giving a total payment for the year of 70 cents. Last year's dividend of HK\$1 was higher because of a special dividend of 50 cents.



Dan Burnham would prefer a majority equity investment

Raytheon seeks more link-ups

By Alexander Nicoll, Defence Correspondent

Raytheon, the US defence electronics group, is "constantly on the lookout" for opportunities to strike partnerships with European companies that could include purchases of equity, Dan Burnham, chief executive, said yesterday.

In an interview with the Financial Times, he said Raytheon already had relationships with Thomson-CSF of France and Daimler-Chrysler Aerospace of Germany, as well as with Marconi of the UK, which is part of its team bidding for a British \$750m airborne radar contract.

"If we can make equity

investments we will, and we prefer a majority to a minority." However, any moves would depend on what was practical, given restrictions on ownership in the defence industry. "We want relationships with European companies because we think we can win more business and they can win more business," he said.

Mr Burnham criticised the notion of a single European defence company, which has been supported by European governments. "I can't imagine it happening. Would it become an armed camp, a protector of its workforce and a subsidised industry that drives up the cost of defence procurement? If so how can it be successful?"

Mr Burnham said companies would do what was in their own interest. "You can't play a six-dimensional chess game. You've got to deal with the situation at hand."

Consolidation within the US defence industry would continue among second-tier companies rather than the biggest prime contractors, Mr Burnham said. "There's still excess capacity in the industry."

Raytheon's acquisition in 1997 of the defence businesses of Hughes Aircraft and Texas Instruments triggered a big reorganisation that has resulted in plant closures and the loss of 14,000 jobs.

Mr Burnham said this had

produced enormous cost savings in defence programmes for the US taxpayer.

Raytheon, the leader in several types of missiles, stands to benefit from the renewed push by US politicians for ballistic missile defence systems. The US Senate voted by 97-3 on Wednesday for a nationwide missile defence shield.

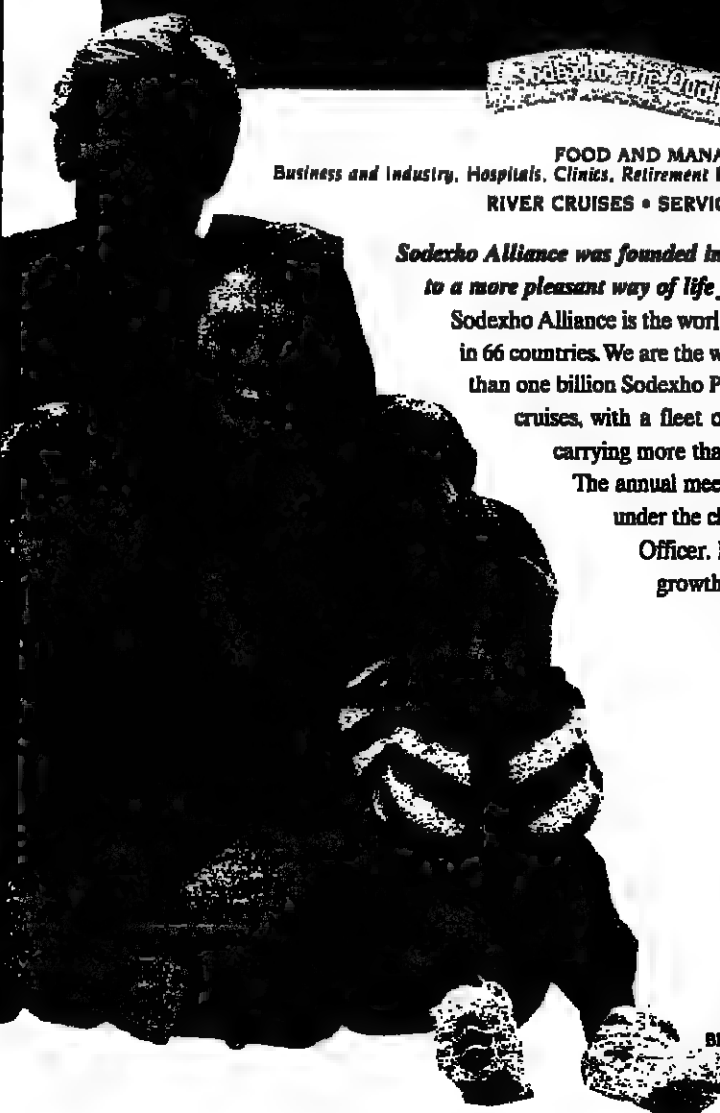
"The political process has spoken eloquently," Mr Burnham said. "The technology is evolving very quickly to be able to produce that kind of security."

US defence spending, which was cut sharply after the Cold War, had bottomed out. "The pressures are up, not down."

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To the shareholders of
SVENSKA SELECTION FUND
(Société d'Investissement à Capital Variable)
You are hereby convened to attend the
ORDINARY GENERAL MEETING
of Svenska Selection Fund, which is going to be held on April 2, 1999 at 2.45 p.m. at the Head Office, 146, Boulevard de la Pérenne, L-2330-Luxembourg, with the following
AGENDA
1. Reports of the Board of Directors and the Auditors.
2. Report of the Independent Auditor on the financial situation of this corporation.
3. Approval of the Balance Sheet and the Profit and Loss statement as at December 31st, 1998.
4. Discharge to the Directors and to the Statutory Auditor.
5. Statutory elections.
6. Miscellaneous.
Yours Faithfully,
The Board of Directors

USD 500,000,000
BANCA DI ROMA
Floating Rate Depositary
Receipts due 2003
ISIN XS0066484790
Interest Rate 5.0625%
Interest Period March 18, 1999
June 18, 1999
Interest Amount due on June 18, 1999 per
USD 1,000 USD 12.94
USD 10,000 USD 129.38
USD 100,000 USD 1,293.75
BANQUE GÉNÉRALE DU LUXEMBOURG
Agent Bank

COMPANIES & FINANCE: EUROPE

DISTRIBUTION DEUTSCHE POST ACQUISITION INCREASES SECTOR CONSOLIDATION

Nedlloyd arm sells for Fl 1.17bn

By Gordon Cramb in Amsterdam and Charles Batchelor in London

The consolidation of the European parcels and distribution sector took a further step forward yesterday with the announcement of the sale of Nedlloyd's road transport operations to the German post office, Deutsche Post.

Shares in Nedlloyd soared 67, or 58 per cent, to €19 on news of the deal which will leave its half share in P&O Nedlloyd, the container shipping venture created

with P&O of the UK in 1997, as its main source of revenues.

Nedlloyd, which yesterday announced an 11 per cent fall in attributable profits to Fl 64m in 1998, expects to make a capital gain on the sale of about Fl 600m.

Deutsche Post plans to integrate Nedlloyd's parcels delivery companies Van Gend & Loos Benelux and Selektivrecht into its own European parcels delivery network while the distribution operations will be merged with Danzas, the Swiss logistics group, for which an agreed offer was

made in December. Leo Berendsen, Nedlloyd chairman, said the group had recognised that it could not on its own reach a top position in a rapidly consolidating European land transport sector.

That had been brought home by the agreement under which Deutsche Post is to take over Danzas.

Deutsche Post has made great strides to shed its image of a bureaucratic state-owned post office but has prompted claims the taxpayer is financing its commercial expansion.

The prospect of the liberalisation of European postal services from 2003 has given a spur to its expansion policy.

The sale of what Nedlloyd calls its European Transportation and Distribution group throws a question mark over the alliance formed last year with Denmark's DanTransport, Dubois of France and Saima Avandero in Italy.

Mr Berendsen said however that the commitments to its partners in this grouping would be met.

After completing the planned sales of stakes in ECT, the Rotterdam port handler, and the airline Martinair it will otherwise retain

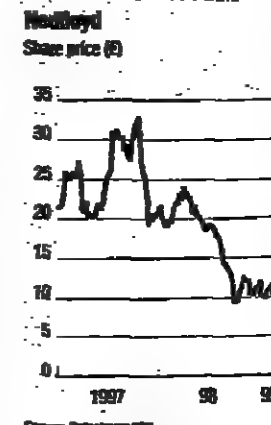
only Mammoet, which transports heavy equipment.

The surge in Nedlloyd shares reflected not only the profit expected from the sale but also its 1998 results.

Although attributable profits were down and the company made a Fl 5m loss before extraordinary gains, against earnings of Fl 32m, the outcome was better than expected by analysts.

Operating profits of the unit being sold to Deutsche Post and Danzas were Fl 20m, up 25 per cent.

The results also reflected a reduction in pre-tax losses at the P&O Nedlloyd venture to \$2m from \$74m.



Mr Berendsen said the company would consider undertaking a share buy-back with the proceeds, while a plan to restructure Nedlloyd's debt would go ahead. "It is definitely not our intention to transform Nedlloyd into a passive investment company."

BMW profit helps offset big Rover loss

By Udo Harmschlagger in Frankfurt and John Griffiths in London

Net losses at BMW's UK Rover Group subsidiary last year soared to DM1.87bn (€956m, \$1.05bn), well above analysts' estimates and underlining the huge task the German vehicles group faces in restoring Rover to profitability.

However a 24.5 per cent jump in BMW's own operating profits, to DM3.92bn, helped offset what one analyst described as "a blood bath at Rover" and the group's overall DM903m net profit was in line with projections. As a result, BMW's shares closed last night up 25 at €53.

The Munich-headquartered group had forecast net profit to come in below its DM1.25bn net profit in 1997, but above its DM820m net profit in 1996.

The dividend was maintained at DM20 an ordinary share and at DM21 a preferred share.

Analysts' forecasts of Rover's losses had ranged mostly between DM1.2bn and DM1.5bn. The worst-than-expected performance was attributed mainly to

payments for hundreds of job cuts and other restructuring measures, exchange rate losses caused by the strong British pound and costs associated with bringing new models, notably the Rover 75, into production.

As expected, BMW's board announced no decision on whether replacements for Rover's 300 and 400 families of cars will be built at its Longbridge plant or at a possible alternative site in Hungary.

A final verdict is expected to be given at the end of this month.

The UK Department of Trade and Industry's proposed aid package for Longbridge, understood to be close to £200m and involving a number of productivity and other provisions, was delivered to the BMW board on Wednesday.

But both the board and DTI knew in advance that its complexity would rule out any immediate decision on Longbridge's future.

"It... breaks new ground for a package of this nature. We therefore expect to have further discussions in the next few weeks," Stephen Byers, trade and industry secretary, said yesterday.

Olivetti may face €1.6bn bill for takeover bid

By Hugo Dixon and Vincent Boland

Olivetti, the Italian telecommunications group, could face a bill for €1.6bn (€1.06bn, \$1.78bn) if its hostile €52.6bn takeover offer for Telecom Italia succeeds.

That would make it one of the most expensive bids ever mounted, and mean the fees are among the most aggressively oriented towards the success of the bid.

Details released yesterday of the structure of Olivetti's bid show it has set aside €1.6bn for "fees, expenses and interest escrow" from the €54.2bn it is putting together to finance the takeover attempt.

The €1.6bn is understood to include the fees of its advisers and lending banks, stamp duty on the acquisition of Telecom Italia, and six months of accrued interest on a syndicated loan of €25.5bn it is raising to help finance the bid.

The figures were in documents revealed yesterday during a presentation by Olivetti in London to analysts and investors, where the company explained the rationale for its bid for Telecom Italia and what it intended to do with the company if

the bid succeeded. In the document Olivetti revealed that while its offer valued Telecom Italia at €52.6bn, the total funding required to complete it would be €54.2bn.

Of the €1.6bn, about €400m will be payable to the syndicate lending €25.5bn to Olivetti if the bid is successful and it needs to draw down all the cash.

It is understood about half of that €400m will be payable whether the bid succeeds or not, in order to win commitments from the lending banks.

It is believed €120m would be payable to Olivetti's advisers, including investment banks and lawyers. It is understood all of these fees are success-related.

In the expense category, €350m may be payable in stamp duty by Olivetti if it received 100 per cent acceptance of its offer from Telecom Italia shareholders.

The stamp duty is one per cent of the value of the transaction. Olivetti's bid values Telecom Italia at €52.6bn. Much of the rest of the €1.6bn is accounted for by six months of accrued interest on the €25.5bn syndicated loan.

Axa announces 27% rise in net profit to €1.53bn

By Samer Iskander in Paris

Axa, France's biggest insurer, yesterday reported a 26.8 per cent rise in 1998 net profits to €1.53bn (FFr10bn, \$1.69bn) and predicted 15 per cent growth in profits per share this year. "Unless there is a major shock on the financial markets",

Claude Bébéar, Axa chairman, suggested a dividend of €1.70, a 24 per cent rise from that paid in 1997, to be approved at the next shareholders' meeting. He also set a target of 15 per cent return on equity by 2002, compared with 12.8 per cent last year and 11.2 per cent in 1997.

Axa shares closed 1.1 per cent lower at €137.1. Henri de Castries, chief executive, said this year's priorities were to "continue integrating and reorganising recent acquisitions, and extending our distribution networks". Acquisition opportunities would be examined on a case by case basis.

Axa also confirmed yesterday it was considering taking a stake in Crédit Lyonnais, the bank whose privatisation was launched this week. The government is setting up a group of core shareholders, which will be offered stakes of up to 10 per cent each in Lyonnais.

German pharmaceutical and chemical maker Hoechst yesterday painted a bleak outlook for its industrial chemicals businesses, writes Udo Harmschlagger in Frankfurt. However, it was optimistic that its drug and life science activities would show a double-digit rise in operating profit this year.

Hoechst's forecast underlined recent demands by Hoechst shareholders, particularly from Kuwait Petroleum Corporation, to merge its life science activities with France's Rhône-Poulenc as soon as possible.

Hoechst said that due to further sales of its industrial activities in 1998, sales would be DM30bn this year, down from DM42.7bn in 1998, but flat on an unadjusted basis. It forecast a particularly bad year for its basic chemicals division Celanese.

Hoechst expects Celanese's earnings to "fall sharply" this year, casting a bad light on Hoechst's endeavors to sell the unit.

Because the full merger is now planned for the end of the year, this puts further pressure on Hoechst to sell its remaining chemical activities as soon as possible. Initially, Hoechst had planned to spin off Celanese and Ticona to its shareholders, but it is now considering alternatives.

Gucci rushes to publicise results rise

By Alice Rawsthorn in London and David Owen in Paris

On the eve of a crunch meeting with LVMH, the French luxury goods group, Gucci, the Italian fashion house, yesterday rushed out details of its results for the year to January 31 and reported an 11 per cent increase in net income to \$196m.

Gucci, which has been locked in an acrimonious battle with LVMH since January when the French group began a \$1.4bn process of buying 34.4 per cent of its equity, saw its shares rise by €4.60 in Amsterdam, or nearly 8 per cent, to €63.90 on the announcement.

The full results will be published on Monday. However, Domenico De Sole, president, said Gucci had decided to publish highlights from them ahead of schedule in response to comments made by LVMH when presenting its full-year figures to analysts in Paris.

"I would invite investors and analysts to compare our excellent results with the 1998 results LVMH published today," he said.

LVMH reported a 29 per cent decline in 1998 profits - with net income from current operations falling to FFr3.46bn (€326m, \$579m) from FFr4.87bn on sales down to FFr45.5bn from FFr48bn - but appeared upbeat about its prospects.

Bernard Arnault, chairman, said that, if economic conditions remained as at present, LVMH should

achieve growth of more than 15 per cent in like-for-like operating profits. LVMH's shares were up €10.70, or nearly 5 per cent, in Paris to €231.20 yesterday.

Both LVMH and Gucci, like other luxury goods companies, have been adversely affected by the instability of their once-buoyant Asian market. However, their problems in Asia have eased since last autumn, as the Japanese yen has strengthened against the US dollar.

Gucci appears to have turned the corner. As well as the net income increase, it yesterday reported a 7 per cent rise in revenue to \$1.04bn from \$975m. Similarly, LVMH said its sales had risen by 3.5 per cent in the first two months of 1999, with those of Louis Vuitton, its crown jewel, up 20 per cent.

After weeks of public and private wrangling, the two companies face the challenge of burying their differences at today's meeting in Amsterdam. They have been urged to seek a negotiated settlement by a Dutch court, pending its final ruling on the legal battle between them in late April.

Mr Arnault hopes to persuade the Gucci board to co-operate with LVMH's luxury companies in operational areas such as property and advertising negotiations. The LVMH camp has identified more than FFr400m of possible synergies between Vuitton and Gucci, some FFr160m of which would come from purchasing and logistics.

Lyonnais and Mellon discuss link

By Samer Iskander in Paris

Crédit Lyonnais, the French bank, yesterday said it was negotiating a potential alliance with Mellon Bank of the US.

"We are in talks with Mellon Bank," said Jean Peyrelevade, Lyonnais chairman. "We have very good relations with its managers."

Signing a co-operation agreement on fund management would qualify Mellon Bank as a potential core shareholder in Lyonnais, whose privatisation was launched this week.

The French government is to sell up to 33 per cent of Lyonnais to a group of core shareholders, who must have "industrial partnerships" with Lyonnais. Each bidder's stake will be capped at 10 per cent. Another 50.5 per cent will be floated on the stock market. Lyonnais employees will be offered up to 5 per cent at preferential terms, while the state will retain a share of just under 10 per cent, when the sale is completed by the middle of the year.

Mellon Bank, which last year bought 75 per cent of Newton Management, a UK fund manager with \$300m of assets under management, yesterday refused to discuss



Jean Peyrelevade predicts improvement in profitability Reuters

its intentions concerning Lyonnais. However, the bank said it continued "to examine opportunities to expand [its] investment man-

agement capabilities overseas".

Axa, France's largest insurance company, yesterday confirmed its interest in participating. Claude Bébéar, chairman, said Axa had "no intention to take control of a bank" but investing in Lyonnais would strengthen existing commercial links. Axa sells roughly FFr700m (€107m, \$117m) of insurance policies a year through Lyonnais' branches. Other bidders include Crédit Agricole, France's largest bank in terms of deposits, and Allianz, the German insurer.

Last year, Lyonnais increased its provisions by 7.8 per cent to €1.3bn. Half the increase was linked to the bank's exposure to Russia and the crisis-hit Asian emerging markets. Net profit almost tripled, from FFr357m to FFr1.08bn, mainly as a result of cost cutting efforts and an improving domestic economic environment.

Lyonais predicted this year would show "an improvement in the profitability of every strategic business line".

Bertelsmann to lobby Washington

By John Gapper in London, Frederick Sautmann in Berlin and Richard Waters in New York

Bertelsmann, the privately owned German media company, is to lobby the US government to relax restrictions on foreign companies controlling US television networks as part of its efforts to expand operations in North America.

Bertelsmann has ruled out the purchase of a Hollywood film studio, but would like the freedom to buy a major

ity stake in a US network, following its acquisition last year of the publishing company Random House.

Thomas Middelhoff, chief executive of Bertelsmann, said in an recent interview that the German company would "discuss carefully and confidentially with the administration in Washington" relaxation of rules that bar foreign companies from holding more than 24.9 per cent of a network.

Mr Middelhoff said that control of a network was a long-term interest of Bertels-

mann. It is restricted in the short term both by regulations and the fact that it expects to wait two or three years before making another large acquisition.

Bertelsmann also owns the book publisher Bantam Doubleday Dell and BMG Entertainment, one of the world's biggest music companies.

Mr Middelhoff said Bertelsmann would argue that US regulations are more restrictive than those in Germany, where there are varying regulations in the different

states, but no formal national limits on foreign ownership of television channels. However, US regulations match those in other European countries.

Bertelsmann has signalled recently that its broadcast subsidiary, CLT-Ufa, will concentrate on free-to-air television operations. CLT-Ufa, which holds a stake in Channel 5 in the UK along with Pearson, publisher of the Financial Times, is negotiating the sale of most of its stake in Premiere, a German pay television operation.

Deutsche Bank plans to sell Bankers Trust arm

By Jane Thornton in Brussels

Deutsche Bank plans to sell the Australasian asset management business of Bankers Trust once its \$10.1bn bid for the US investment banking business is finalised.

The decision to sell BT Fund Management Australia has surprised some industry analysts because it was considered a covetable part of BT's active fund management arm. With some \$26bn

of assets under management at the end of last year, the company is the largest mutual fund manager and second largest institutional manager in Australia.

Michael Dobson, the head of Deutsche's asset management business, said the group had decided the Australian business overlapped with Axiom, its own Australian business which has \$14bn of assets under management. The two businesses

would have had 13 per cent of the Australian institutional fund management market, he said, with a large combined holding in several companies.

He denied the management of BT had disagreed with any integration plans.

"This is nothing to do with difficult people or power struggles or anything, this is the right thing to do for Deutsche Bank and Bankers Trust," he said yesterday.

after Deutsche announced last year's results.

Interest in the Australasian business, which includes New Zealand, is understood to come from domestic Australian banks as well as international groups.

Investment bankers have estimated a price of up to \$1bn which would represent just over 3 per cent of assets under management.

Deutsche Bank is under-

stood to want the deal done as quickly as possible although it would not be agreed finally until after the BT takeover goes ahead at the end of May.

Deutsche announced in January that the Australian asset management business would be run separately, in contrast to its plans for the US and Japanese operations for BT. The takeover of the US bank adds almost \$400bn to assets under management

at Deutsche, bringing the combined total to about \$670bn.

However, a large chunk of BT's assets - about \$300bn - are invested in index tracking funds and will be managed by the combined group custody operations which are headquartered in the US.

The group's US active management business is to rise from \$12bn to \$75bn as a result of the deal.

Turks transform to survive

Conglomerates are searching for new growth areas, writes Leyla Boulton

Turkey's conglomerates, the main locomotive of its industrialisation, are transforming themselves in response to an economic slowdown and liquidity squeeze that has put the survival of some of them in doubt.

Those with the financial muscle to withstand the difficulties, such as Sabanci and Koc, are seeking to enter growth industries such as telecommunications and energy.

The transformation at Koc and Sabanci, which cover the broad spectrum of Turkish industry, is driven in part by a desire to reduce group exposure to cyclical sectors such as automotive manufacturing, textiles and white goods.

Both are expected in the next month or so to report consolidated earnings for 1998 were hit by a slowdown in domestic demand for durable goods. "Everybody's margins will be affected by the Turkish market in 1998," says Tahsin Salik, director for investor relations at Koc.

The group will review all its businesses this year to

determine which, if any, sectors it should quit. In the meantime, it has teamed up with SBC, the US telecoms operator, to bid for a 25 per cent strategic stake in the privatisation of Turk Telekom expected at the end of this year.

Koc and Sabanci plan to bid for a new cellular telephone licence to be auctioned by the government.

Koc is also in discussions with PSG, a consortium led by Bechtel of the US, on taking an equity stake in a proposed natural gas pipeline from the central Asian republic of Turkmenistan to Turkey, Europe's fastest-growing energy market.

At home Koc seeks to gain control of 2,500MW of power generating capacity as the electricity industry is gradually turned over to private operators.

Aydin Muderrisoglu, vice-president for strategic planning, expects the group to generate 20 per cent of its revenues from energy and telecommunications within five years.

He reckons it will need to raise \$500m to \$700m to pay

for its stake in new investments which together with partners' interests will be worth around \$1.6bn.

Sabanci, apart from significantly stepping up its presence in food retailing, plans to bid for Petkim, a state-owned petrochemicals group earmarked for privatisation.

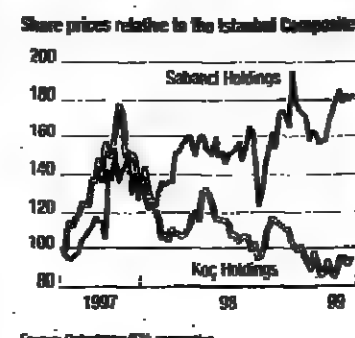
Financing some of these acquisitions will mean going to international capital markets to raise capital through secondary offerings of shares still owned by the groups' founding families.

"We [as the Sabanci family] don't need to own this much," says Erol Sabanci, chairman of Akbank, the country's second biggest private sector bank which together with the conglomerate's insurance business generated 71 per cent of Sabanci group's profits last year.

"But there has to be appetite for such offerings in order not to hurt the share price."

Mr Sabanci says the group intends to increase the free float of its 12 listed companies by five to 10 percentage points from an average of 18 per cent as and when market conditions pick up. Koc and Sabanci have told analysts they expect to tap markets

Koc and Sabanci Holdings



later this year.

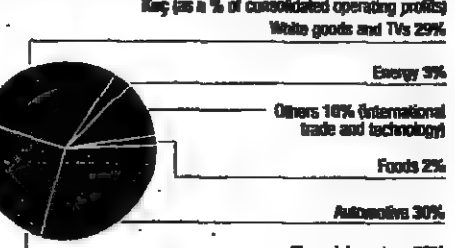
Greater openness to capital markets is in turn prompting the companies to provide more information about themselves, partly by making their own structure and accounting practices more transparent.

After pulling a secondary share offering at the last minute, Koc is seeking to shed what it says is an

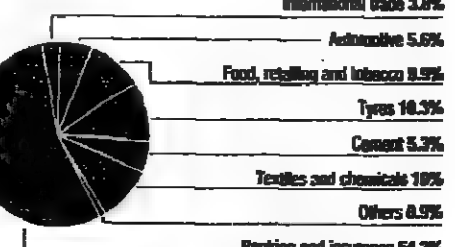
undesired image of aloofness. At a time when most big private sector banks still have sizeable industrial holdings, Akbank has just completed its transformation into a pure banking business by selling its industrial stakes to the holding company.

This new strategy extends even to some of the smaller conglomerates. Dogan, the country's biggest media group with subsidiaries in banking, automotive spare parts and steel rope, intends to distribute electricity. According to Imre Bermanbek, Dogan's chief financial officer: "We cannot expect endless growth from the media and finance so we are reducing our risk by not putting all our eggs in one basket."

Percentage of profits made in each sector, 1997



Sabanci (as a % of combined net profit)



CEBIT 99 TECHNOLOGY FAIR IN HANOVER

Europe's IT market catches the wave

By Paul Taylor and Christopher Price in Hanover

The world's biggest information technology and telecommunications companies, gathered in Hanover, Germany for the annual CeBIT technology fair, are optimistic about the outlook for electronic commerce and sales of IT products and services in Europe.

Technology leaders including John Chambers, Cisco's chief executive, Patrick Gelsinger, Intel's general man-

ager, and Henning Kagermann, SAP's co-chief executive, all delivered upbeat market assessments yesterday underlining the buoyancy of the European IT market, the fastest growing in the world.

Some 75,000 people are expected to visit CeBIT 99 over the next few days, tramping through the fair's 20 giant halls which house about 6,000 exhibitors from around the globe, making it the world's largest IT fair.

But the mood at CeBIT 99 is in sharp contrast with that two years ago, shortly after Intel's Andy Grove had shocked delegates at the World Economic Forum in Davos, Switzerland by telling them that Europe risked slipping behind in the adoption of new technology—particularly the internet.

There has been a dramatic change over the past year, said Rob Eckelmann, head of Intel's European operations, yesterday.

For example, he noted that the mix of Intel microproces-

sors sold in Europe was now richer than that in the US.

The growing importance of Europe to the IT industry's US giants is also highlighted by Microsoft's much larger presence at CeBIT this year.

Microsoft's stand reflects the desire of the world's largest software group to extend its reach from the handheld PC market, where it was showing the latest machines running its Windows CE operating system, through desktop systems, to the corporate data centre at

which it is targeting Windows 2000, the next version of its NT operating system.

Like other exhibitors, Microsoft and its IT partners are also emphasising the importance of electronic commerce for corporate competitiveness. As Mr Chambers noted, electronic commerce is poised to grow dramatically in Europe as more consumers go online.

The growing acceptance of internet and electronic business as an integral part of everyday operations is one

of the main themes to emerge from this year's CeBIT fair.

Other emerging trends highlighted by the record number of exhibitors at the show include the rapidly changing IT landscape, shaped by big deals such as Compaq Computers' acquisition of Digital Equipment, or Nortel's purchase of Bay Networks which highlights the convergence not just of voice and data technologies, but of mobile and fixed telecommunications.

Redstone, which is based in Westford, Massachusetts and was founded 18 months ago, is a leading developer of next generation IP routers. Volker Jung, in charge of Siemens information and communications division, declined to reveal how much Siemens paid for the US company, but acknowledged that the group has spent more than \$1bn on acquisitions since the formation of Unisphere.

Other US purchases include Argon Networks and Castle Networks, together with a stake in Accelerated Networks. Siemens, like other traditional telecoms equipment manufacturers, has been scrambling to acquire the IP technology expertise which will be required to develop new products for the next generation of combined voice and data communications networks.

Meanwhile, Mr Jung also revealed yesterday that orders and sales in Siemens restructured information and communications group grew modestly in the five months from October. Orders increased to DM19.4bn (€9.81bn, \$10.9bn) from DM19.2bn while sales grew to DM18bn from DM17.8bn. Paul Taylor, Hanover

Linux system gains big backers

By Christopher Price in Hanover

SAP and Siemens yesterday gave a boost to Linux when the two German groups said they would begin supporting the open source computer operating system which is emerging as a competitor to Microsoft's Windows.

They are the latest in a string of computer groups that have begun offering software and support to Linux. The operating system, developed from the Unix version, is popular with some programmers because

its source code has been made available free to anyone who wishes to programme from it. Microsoft's Windows NT is a closed system. Some programmers and developers believe Linux's open source makes it more flexible and gives it greater potential as computing moves into the new millennium.

There is also concern among some users over being too tied to Microsoft software and products. SAP's decision was made due to customer demand, the

company said yesterday.

In view of the market interest for Linux, its stable technological foundation and our commitment to platform independence, it was incumbent on SAP to step up to delivering SAP R/3 on Linux," said Karl-Heinz Hess, executive vice president of systems technology development.

SAP is the world's biggest supplier of enterprise resource planning software, which is used to run computer databases of large and medium sized businesses.

The company said it would begin shipping software running on Linux in conjunction with its hardware partners Compaq Computer, Hewlett-Packard and IBM.

"Linux is a stable, reliable operating system that has gained a quality to be ready for running mission-critical business applications, such as SAP R/3," said Robert Hoog, president of Siemens computer systems division.

He said Siemens would be working with SAP to develop an integrated Linux-led system.

Equant advances after going public

By Alan Cane in London

Equant, the global networking group which floated in Paris and New York last July, continued to make progress last year in its transformation from private operator to competitive global carrier.

It saw revenues increase 11.6 per cent to \$404.2m in the second half of the year, while revenues for the whole of 1998 came in at \$733.7m, a

\$194.7m improvement over the year before.

Didier Delepine, chief executive, said revenues in the year increased faster than costs.

Earnings before interest, tax, depreciation and amortisation for the final six months were \$55.2m, an 87 per cent improvement over 1997.

For the year, the company reported a net loss of \$43.4m or 23 cents a share.

Israeli high-techs face cherry-pickers before they are ripe

Overseas companies are tempting small enterprises that have not had chance to mature with cash, reports Avi Machlis

Israel's financial pages recently have been boasting yet another vote of confidence in the country's technology sector, following the biggest foreign acquisition of a local software company.

But not everybody cheered in Tel Aviv when BMC Software of Houston purchased New Dimension Software, the Israeli enterprise management specialist, for more than \$650m.

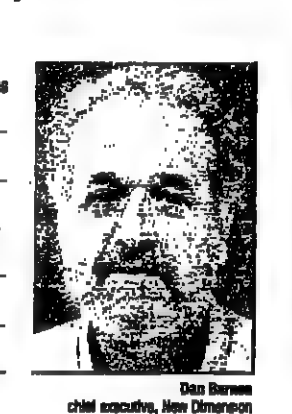
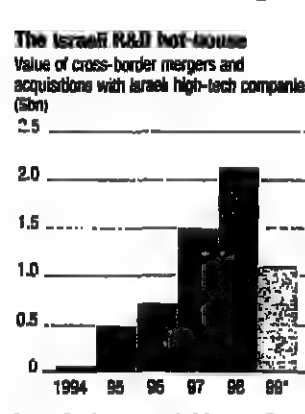
The acquisition continues a wave of cross-border deals, but it has also reignited a public debate over the future of Israel's high-tech sector. As more overseas groups tempt small Israeli companies with quick cash, critics warn the sector may become a research and development subsidiary of Silicon Valley, and its companies may never mature into significant play-

ers on world markets. Even Dan Barnea, New Dimension chief executive, had mixed feelings, especially since the deal was a product of a prolonged shareholders dispute.

"I really hope we could grow and prove that an Israeli company could become a big player on international markets," said Mr Barnea.

Cross-border merger and acquisition activity in Israel's high-tech sector climbed from \$1.5bn in 1997 to a record \$2.13bn in 1998, according to Giza Group, a Tel Aviv investment bank.

This year, M&A activity has already reached \$1.1bn, after SunGard, the US software group, last week acquired Oshpar of Israel for \$210m worth of stock. Most



companies targeted had scant revenues and were purchased because of their innovative technologies. In addition, America Online's \$407m acquisition of Mirabilis, creator of an internet chat program with no revenues, was designed to tap into more than 16m users. Others, like New Dimension with revenues of \$98m, had just started growing.

"If not for the shareholders, I would have dared to go further," said Mr Barnea. "But the huge financial burden of building sales channels discourages many Israeli companies from even trying. And being in Tel Aviv—far from key markets—just makes it harder."

Critics say Israeli entrepreneurs, who often lack marketing and management

expertise, are so intimidated by the challenge of building a global company, they immediately succumb to acquisition offers. Some even urged the government to raise barriers to future takeovers.

But Nir Barkat, managing director of BRM Technologies, a US-Israeli investment firm that specialises in developing Israeli companies, said the solution is education.

"Israeli entrepreneurs do not know how to build up their companies," says Mr Barkat, whose firm has rejected offers for its holdings.

"The solution is to network with strong partners overseas to build a richer environment that increases the chances of success."

Supporters of the acquisitions say it is unreasonable to expect entrepreneurs or shareholders to resist lucrative offers. And many small start-ups which specialise in

niche technologies would have little chance of surviving on their own.

"If shareholders want to sell, why shouldn't they?" says Zvi Schechter, managing director of the Giza Alex Brown venture capital fund in Tel Aviv. "It's best to specialise in what you are good at, and Israelis are good at the early stages of building a company."

To take their companies further, however, Israeli managers must get more aggressive, according to Charlie Ben Chabat, head of research at Robertson Stephens Evergreen, the investment bank's Tel Aviv branch.

"Many Israeli companies are afraid to take the financial risk needed to climb past a certain plateau," says Mr Ben Chabat.

"Israeli entrepreneurs have yet to show the business leadership needed to become global players."

NEWS DIGEST

ELECTRONICS

Siemens buys US network equipment specialist

Siemens, the German electronics group, has acquired privately-owned Redstone Communications, a US-based networking equipment specialist, as part of its drive to strengthen its position in the growing market for converged computer data and voice network equipment. The deal is the latest in a series of purchases by Siemens which earlier this month formed a new US-based company, Unisphere Solutions, to develop products for the fast growing internet-technology based networking equipment market.

Redstone, which is based in Westford, Massachusetts and was founded 18 months ago, is a leading developer of next generation IP routers. Volker Jung, in charge of Siemens information and communications division, declined to reveal how much Siemens paid for the US company, but acknowledged that the group has spent more than \$1bn on acquisitions since the formation of Unisphere. Other US purchases include Argon Networks and Castle Networks, together with a stake in Accelerated Networks. Siemens, like other traditional telecoms equipment manufacturers, has been scrambling to acquire the IP technology expertise which will be required to develop new products for the next generation of combined voice and data communications networks.

Meanwhile, Mr Jung also revealed yesterday that orders and sales in Siemens restructured information and communications group grew modestly in the five months from October. Orders increased to DM19.4bn (€9.81bn, \$10.9bn) from DM19.2bn while sales grew to DM18bn from DM17.8bn. Paul Taylor, Hanover

INTEL

Microprocessor launched

Intel, the world's largest semiconductor group, yesterday launched its next generation microprocessor for the high power PC workstation and network server market incorporating the advanced multimedia capabilities built into its recently released Pentium III processor. The Pentium III Xeon microprocessor, which will initially be available in two versions, running at speeds of 500MHz and 550MHz, will enable more powerful servers to be built and will be particularly suited to machines designed as internet web servers and for handling electronic commerce transactions.

The new microprocessor will also enable computer companies to build more powerful PC workstations designed to compete head-to-head with machines built by Sun Microsystems and others which use different types of non-Intel microprocessors. Pat Gelsinger, Intel general manager, added that early sales of the Pentium III chip launched three weeks ago were in line with the groups expectations. Paul Taylor

ERICSSON

Epoc products on display

Ericsson showed off its first two products to utilise the Epoc operating system. The Swedish group, together with Nokia, Motorola and Palm, is a partner in Symbian, which owns Epoc, which was developed originally for Palm's hand-held computers. The Ericsson R380 is a small dual-band mobile phone with built-in palm-sized PC functionality. The company also introduced the MC218 mobile companion. The other Symbian partners are also developing Epoc-based products for launch this year which will see the long-awaited convergence of computers and phones. Christopher Price

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FISCAL YEAR 1998

At its Meeting of March 9, 1999, the Board of Directors finalised the accounts for the financial year 1998.

The accounts show a net profit of US \$ 38,279,005.

The total net asset value as of December 31, 1998 amounted to US \$ 330,021,465.

As of December 31, 1998, the Dividend Share reached a net asset value of US \$ 480.61. Compared to the December 31, 1997 net asset value of US \$ 420.76, this represents a 14.20% rise over the previous year, or a 15.72% increase, if one takes into account the US \$ 6.40 dividend paid on June 2, 1998.

As of December 31, 1998, the Capital Share reached a net asset value of US \$ 501.52. Compared to the December 31, 1997 net asset value of US \$ 433.33, the increase over the year represents 15.74%.

Longer term results show the net asset value with dividends reinvested, expressed in US \$, rose by 58.2% over 5 years. Over 10 years, the value of a share has been multiplied by a factor of 2.4 and over 15 years it has been multiplied by a factor of 5.

The Board of Directors decided to propose to the Annual General Meeting to be held on April 27, 1999:

- the payment to each Dividend Share, outstanding as at the close of business of stock exchanges on May 31, 1999, of a dividend of US \$ 6.75 (six dollars seventy-five cents) for the year 1998, to be compared with the dividend of US \$ 6.40 paid in 1998 for the year 1997;

- the attribution of the amount corresponding to the dividend to the Capital Shares.

The dividend of US \$ 6.75 per Dividend Share is free of withholding tax in Luxembourg and would be payable as of June 1, 1999.

On March 17, 1999, the geographical breakdown of assets was as follows:

Cash	20.30%	Japan	6.42%
North America	19.37%	Europe	51.04%
Pacific Basin (excluding Japan)	2.87%		

NET ASSET VALUE AS OF MARCH 17, 1999		
PER SHARE OF US \$ 50	DIVIDEND SHARE	CAPITAL SHARE
	US \$	US \$
NET ASSET VALUE	479.01	499.94
SALE PRICE	481.41	502.44
REPURCHASE PRICE	478.61	497.44

From the accounts determined for the financial year 1998, the following amounts are available for distribution to shareholders in accordance with the provisions of the Luxembourg Companies Act of 1929:			
Amount in US \$	Amount in Luxembourg Francs	Amount in Euros	Amount in Swiss Francs
0000	25.64	25.64	25.64
0100	25.64	25.64	25.64
0200	25.64	25.64	25.64
0300	25.64	25.64	25.64
0400	25.64	25.64	25.64
0500	25.64	25.64	25.64
0600	25.64	25.64	25.64
0700	25.64	25.64	25.64
0800	25.64	25.64	25.64
0900	25.64	25.64	25.64
1000	25.64	25.64	25.64
1100	25.64	25.64	25.64
1200	25.64	25.64	25.64
1300	25.64	25.64	25.64
1400	25.64	25.64	25.64
1500	25.64	25.64	25.64
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1700	25.64	25.64	25.64
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2100	25.64	25.64	25.64
2200	25.64	25.64	25.64
2300	25.64	25.64	25.64
2400	25.64	25.64	25.64
2500	25.64	25.64	25.64
2600	25.64	25.64	25.64
2700	25.64	25.64	25.64
2800	25.64	25.64	25.64
2900	25.64	25.64	25.64
3000	25.64	25.64	25.64

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DUE DECEMBER 1999
ISIN CODE : XS0040631805
For the period March 17, 1999
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has been fixed at 10.928 % P.A.
Next payment date :
June 17, 1999
Coupon rate : 2.5
Amount : FRF 100 000
FRF 43 200.44 for the denomination
of FRF 1 000 000
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SUBORDINATED FLOATING
RATE NOTES DUE 2001
ISIN CODE : XS0032089822
For the period March 18, 1999 to
June 17, 1999 the net yield has been
fixed at 3.0485 % P.A.
Next payment date : June 17, 1999
Coupon rate : 2.3
Amount : FRF 150,000 for the
denomination of FRF 200 000
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Fax: +44 171 873 4562
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FINANCIAL TIMES
No FT, no comment.

NATIONAL BANK OF GREECE

INVITATION TO THE BANK'S SHAREHOLDERS
TO ATTEND THE ADJOURNED GENERAL
MEETING TO BE HELD ON
TUESDAY, 6TH APRIL 1999 AT 12:00 NOON

Pursuant to the Greek Companies Act No 2190/1920 and Articles Nos 11 and 15 of the Bank's Articles of Association, and following Board of Directors decision dated 18th March 1999, the Shareholders of National Bank of Greece S.A., a banking Société Anonyme having its registered office at 86 Eolou Street, Athens, Greece, are invited to the Adjourned General Meeting to be held on Tuesday, 6th April 1999, at 12:00 noon, at the Bank's Head Office at 86 Eolou Street, Athens, to discuss and decide upon the following matters on the agenda whose discussion was adjourned at the Extraordinary General Meeting of 18th March 1999 due to lack of quorum.

1. Increase in the Bank's share capital against payment in cash; also giving an irrevocable authority to the Board of Directors to resolve upon the settlement of any matters regarding the fractional rights to shares (rounding up) through the purchase or sale of fractional rights, as the case may be.

2. Resolution regarding a restriction of the shareholders preference right for part of the capital increase in order for the Bank's employees to be given the possibility to participate in the share capital increase.

3. Amendment of Articles 4 and 39 of the Bank's Articles of Association as a result of the aforementioned share capital increase.

4. Settlement of a matter regarding the holders of the Bank's 1991 Convertible Bond Loan who did not exercise their right to convert their bonds into shares on 16 November 1998.

Pursuant to the Law and the Articles of Association, Shareholders wishing to attend the Adjourned General Meeting in person or by proxy should, by 31st March 1999, deposit their shares with the Bank (Head Office and Network Branches), or with the Deposit and Loans Fund or otherwise with any banking corporation in Greece.

Specifically, shareholders abroad may deposit their shares either with the National Bank of Greece Offices in London, Rotterdam, Frankfurt, Düsseldorf, Munich, Stuttgart, Koeln, Berlin, Vienna, Cairo, Sofia, Bucharest, Tirana, Korce and Durres or with any recognized bank in the other cities.

Shareholders who are legal entities should, within the same time limit, also deposit their legalisation documents provided for by the Law, unless such documents have already been deposited with the Bank, in which case, it is sufficient to mention in the proxy, where such documents have been deposited with.

The relevant share deposit receipts and the proxies should be delivered to the Bank within the same time limit.

Athens, 18th March 1999
By order of the Board of Directors
THE CHAIRMAN - GOVERNOR
THEODOROS VAS. KARATZAS

COMPANIES & FINANCE: THE AMERICAS

DEFAULT FEARS FIRST TIME A PRIVATE COMPANY SAYS IT MIGHT NOT BE ABLE TO MEET FOREIGN PAYMENT

Brazilian cable operator warns over debts

By John Barlow in São Paulo

The head of a struggling Brazilian cable TV operator has said his company might not be able to honour an \$8m debt payment due in June.

This is the first time since the country began sinking into a deep recession, with January's 40 per cent devaluation of the Real, that a Brazilian company has said it might default on foreign

debts. Hermanno Lins de Albuquerque, chief executive of TV Fime, told analysts it was obvious the company would have to restructure its debt.

Observers are concerned that default on private-sector debt could disrupt Brazil's efforts to return to international capital markets.

Private companies and banks account for 60 per cent of the country's

US\$235.1bn foreign debt, say analysts, with \$9.48bn in principal and interest on medium and long-term debt falling due in the first half of the year. Few companies have been able to refinance these loans, forcing them to repay debt as it falls due.

However, commentators say that unlike the indebted cable TV operators, most Brazilian companies carry relatively few debts.

TV Fime, part-owned by Editora Abril, the powerful Brazilian magazine publisher, has been in trouble for several years. It has tried to retire debt by repurchasing debt paper at just 15 per cent of face value, an implicit recognition of default. Creditors rejected the terms.

Standard & Poor's, the rating agency, has cut its rating to CC with a negative out-

look, indicating a high probability of default.

The nascent Brazilian cable TV industry suffered particularly badly as the country slid into recession last year, cutting its subscriber base and increasing the "churn" rate as existing clients switched to cheaper rivals.

January's devaluation made matters worse, since nearly all programme con-

tent is imported from the US and paid for in dollars. However, subscription revenues are in Reals.

Globo Cabo, the dominant cable operator owned by Globo Participações, the largest terrestrial TV company, is also in trouble. Its losses last year mounted from \$8.9m to \$270.2m, while its debts rose from \$737.3m in the third quarter to \$766.1m in the fourth.

Weighing up the value of one of banking's best brands

Investors have the chance to analyse Goldman Sachs as it prepares for its initial public offering. Tracy Corrigan reports

Investors weighing the option of buying a stake in Goldman Sachs, which filed for its initial public offering this week, can at last concentrate on the serious business of analysing just what exactly is on offer, when the IPO comes to the market in late May or early June.

Goldman has one of the best brands in the global investment banking business. Further, it has long been assumed to be one of the most profitable financial institutions. However, up until now Goldman's partnership structure has allowed the firm to present the world with only the most opaque financial details.

Goldman's stated earnings for 1998 of \$2.9bn, for example, were initially reported before tax and payments to partners.

In fact, its pro rata earnings - that is, if it were a public company - would have been \$1.3bn. Based on Goldman's equity capital base of \$6.3bn, this represents a return on equity of just over 30 per cent. This is slightly more than Merrill Lynch's level and slightly less than Morgan Stanley Dean Witter achieved last year.

The financial data disclosed in the filing also provide a breakdown of reve-

nuues over recent years and give a much clearer picture of how Goldman makes its money.

Last year, Goldman had revenues of \$3.4bn in investment banking (its advisory and underwriting businesses), \$2.4bn in trading (including proprietary trading) and \$2.7bn in asset management and securities services.

Some detractors have argued that Goldman should trade at a substantial discount to rivals because it is more reliant on volatile trading earnings.

In fact, trading revenues accounted for just 38 per cent of Goldman's total revenues last year.

But this is misleading, because the market turmoil surrounding Russia's debt default and the near collapse of Long-Term Capital Management muddled the waters.

Goldman's trading business lost \$668m in the fourth quarter and trading and principal investments "did not make a significant contribution to pre-tax earnings in 1998".

The firm "suffered losses from both the decline in the prices of corporate and high-yield debt instruments that it owned and the increase in the prices of the US Treasury securities in which the

firm owned short positions". It also made losses in relative value trading positions, as well as suffering some losses in equity arbitrage.

In fact, the split in revenues in 1998 and 1997, when trading revenues accounted for 44 and 39 per cent of total revenues respectively, is more representative of the weighting of Goldman's three key businesses.

Of trading revenues, the vast bulk comes from the fixed income, currencies and commodities group - 65 and 70 per cent in 1998 and 1997 respectively (though only 60 per cent last year, due to turbulent market conditions).

This suggests that while Goldman's pre-eminence as a mergers and acquisitions and equities house is well deserved, it is in fact more dependent on fixed income business than had previously been recognised.

And although it is hard to unravel the underlying trend from the effect of market turmoil, Goldman is seeking to lessen its reliance on trading revenues. "While we plan to continue to grow our trading businesses, the financial market shocks of the past year underscored the importance of our strategy to emphasise growth in our investment banking, asset management and securities services businesses."



The Goldman Sachs building in Broad Street, New York. AP

Through a greater relative emphasis on these businesses we plan to gradually increase the stability of our earnings," the proxy states.

The next question is how far investors will factor such a planned shift into any valuation of Goldman. Morgan Stanley and Merrill, with more diverse businesses, are trading at multiples of close to 20 times this year's estimated earnings, and most people expect - particularly given the typical discount pricing of an IPO - that Goldman will have a lower p/e ratio, of perhaps 16 or 17 times this year's earnings.

Assuming a modest increase in last year's pro rata earnings to, say, \$1.5bn

- many analysts have not worked out official estimates yet - a multiple of even 16 times would give Goldman a market capitalisation of about \$24bn.

If the stock market remains strong, the valuation of Goldman may get quite close to the original lofty reckonings of \$30bn, before the first effort at an IPO was pulled due to market conditions last year.

Goldman disclosed in its filing that it estimates the total cost of implementing its Year 2000 effort will be \$140m-\$150m, over half of which has already been spent. The remaining portion of which will be spent in 1999 and early 2000.

Sumitomo to sell Goldman shares

By Naoko Nakamori in Tokyo

Sumitomo Bank, one of Japan's largest banks, is expected to make a profit of over \$200m from sales of shares in Goldman Sachs.

Sumitomo is to sell 9m of its shares in the US investment bank, which announced its intention of going public on Tuesday, when it filed for an offering of 60m shares with the Securities and Exchange Commission.

Of the remainder, Goldman Sachs will sell 42m shares and Kamehameha Activities Association will sell 9m shares.

Goldman's shares are expected to be priced at \$40-\$50 per share, making the total sales value of Sumitomo's shares about \$400m. This would leave Sumitomo with a profit of over \$200m, according to a spokeswoman for the bank.

Sumitomo's \$200m windfall will not come in time for its fiscal year-end on March 31, but will provide a welcome boost to its capital base.

Last week, Japan's Financial Reconstruction Committee, the body charged with bank reform, officially approved a plan to inject ¥7,450bn into 15 banks. Sumitomo will receive ¥501bn.

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NORMA COHEN
THE PROPERTY MARKET

All change for the City

The Corporation of London is considering taking dramatic steps to ensure the capital remains a magnet for financial institutions

London has established itself as the capital of Europe's financial services industry, and it intends to stay that way. But with Frankfurt, home of the new European Central Bank, preparing to offer planning approval to a multitude of new skyscrapers, it is clear London cannot be complacent about its future.

Moreover, the City of London - the square mile which arguably houses its soul - is no longer the automatic first choice of financial institutions. Canary Wharf, some three miles to the east, has taken the lion's share of new bank headquarters buildings, while the London borough of Southwark is working hard to encourage another massive development just across the Thames.

Thus, it should come as no surprise that the Corporation of London, the body which oversees City affairs, is taking some dramatic steps to ensure that the financial institutions which are its life's blood do not stray too far outside its borders.

Earlier this week, it emerged that the Corporation has agreed to consider "buying in" leaseholds and freeholds it owns around the City to make it easier for developers to acquire the type of sites which increasingly are only available outside the City's fringes.

Moreover, it has agreed in principle that tall buildings which do not obstruct protected views of St Paul's Cathedral are also appropriate.

"The health and vitality of this vital asset will be threatened unless we are prepared to encourage development," said Judith Mayhew, head of the Corporation's policy and resources committee, addressing a group of London developers at the annual MIPIM real estate conference in Cannes.

Stuart Lipton, chairman of Stanhope Properties and one of the City's most prolific developers, says the move to assist in site assembly is a significant step forward for the City. "What the City needs is sites. Most corporates don't want to be in the business of real estate. They don't want to get into planning or archaeological issues."

It is precisely this, along with considerations of cost and speed of development, that has propelled its traditional occupiers to new sites, particularly Canary Wharf.

Arguably, London could have slipped from its undisputed position as the heart of Europe's financial services industry had Canary Wharf not been built.

A 1985 report on London's future, entitled "All Change in the City" noted that demand for City space was spurred by the nature of its financial services industry and depended on physical proximity to one's customers and competitors. "The physical concentration of financial institutions in a

small area affords possibilities of easy personal meetings between different representatives. These advantages result in a high premium being set on City locations."

But even then, financial services firms were drifting towards the City fringes, where rentals were lower. The report cited a Richard Ellis study naming the City as the world's most expensive office market. By 1988, rents were as much as £80 per sq ft, and, with the spectre of Canary Wharf looming over it, the City had begun a wholesale relaxation of its planning regime.

Since Big Bang, in 1986, a third of the City has been rebuilt and prime rents are around £45 per square foot. Meanwhile, technological innovation means that physical proximity counts for less and many of the City's grand old names of banking have been gobbled up by foreign competitors.

Some Corporation officials heartily espouse the view that Canary Wharf has helped cement Europe's financial services industry to

the City, rather than detach it.

"It's the environment of the City which is important to us," a spokesman says. "It is right that the financial services industry is in London and has critical mass. The key thing is that it exists under the brand name of the City."

But Bill Hillier, chairman of Bartlett School of Graduate Studies at University College, London, argues that the types of physical spaces the City creates affect its role as a business magnet. Open spaces encourage people to congregate, providing the buzz of City life.

Meanwhile, he says, the entire planning process for new development in the City has been hamstrung by the authority which architectural traditionalists have had over development. The buildings which are today regarded as sacrosanct are products of the constant process of redevelopment which has occurred over centuries in the City.

"What we want to preserve is the product of a process of replacement... the essence of culture and vitality."

Ms Mayhew insists that although the Corporation wants to encourage redevelopment "we wouldn't want to be allowed to level the City."

But Mr Lipton argues there is still far more the Corporation can do to ensure that the City remains a magnet for financial services firms. Projects with open spaces, art, shopping leisure and other activities should be encouraged. Greater consideration should be given to mixed-use development and the creation of shopping arcades, rather than a scattergun approach to retail development.

"In terms of fun life, the City is nothing," Mr Lipton says. "It's clean and it's safe, but it's drab. Its restaurants are few and expensive. Downtown New York fell apart because it became a daytime-only area."



City of London: 'It's clean and it's safe, but it's drab' Amanda Morris

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COMMENT

National Express

Rail privatisation has been very good to National Express. Its franchise bids assumed only modest growth in passenger volumes whereas these have actually shot up by 7% per cent in 1998. There is no sign there of an economic softening. Clamping down on fare-dodgers may have helped, as well as the strong labour market. This level of growth may not be sustainable but the golden start means National Express should easily offset the decline in government subsidy. But the real excitement is the prospect of extensions to the rail franchises. If these are granted, the market may start to value the rail earnings as if they lasted indefinitely rather than just for the period of the licence.

The only worry is that National Express may be doing rather too well. Its buoyant results will certainly attract the government's interest as it pushes for a better deal for passengers. But, fortunately, National Express should be in good odour with ministers, as its franchisees have generally scored well on reliability. Furthermore, Labour does not seem to object to profits so much any more, as long as the investment is there. And the government does not push for punitive new performance targets. If the incumbents think they are too harsh and decide not to re-bid, new entrants may also take fright. That would leave ministers with the unpalatable task of running the railways itself - and taking all the flak.

Zeneca wins access to GM crop market in US deal

By David Pilling

Zeneca, the pharmaceuticals and agrochemicals business, has struck an agreement with Monsanto, the St Louis-based life science company, which will give it access to the rapidly growing US market for herbicides used to prevent genetically-modified crops.

The out-of-court settlement will allow Zeneca to market its Roundup herbicide for use with the US group's genetically modified crops, which have been accepted in the US in contrast to the hostility provoked in Europe. Monsanto estimates its brand of modified soybean beans accounted for 35 per cent of the \$15bn crop in 1998.

"This settlement relieves uncertainty," said James Culverwell at Merrill Lynch. "We were concerned that Zeneca might not be able to access the US." The shares rose 79p to £25.99.

The agreement brings to an end a dispute in which Monsanto had tried to prevent Zeneca marketing Roundup as a substitute for Roundup herbicide, sold by Monsanto as part of a crop "system" with Roundup Ready soybean beans, corn and cotton. These are genetically modified to resist Roundup herbicide, allowing the farmer to kill weeds without damaging the crop. Roundup and Roundup are chemically similar.

The settlement with

Natl Express poised for large US buy

By Susanna Voyle

National Express, the rail, bus, coach and airports group, is understood to be close to agreeing a deal to buy a large US school bus operator.

The group - which yesterday announced a 77 per cent increase in annual pre-tax profits to £95.6m (£154m) with passenger increases across all divisions - already owns two companies that run the distinctive yellow school buses.

However, the deal is expected to give the group critical mass in a market estimated to be worth \$13bn a year where only 33 per cent of the operators are in the private sector.

The group operates 1,730 buses, transporting 170,000 pupils a day after two acquisitions in the past six months that cost a total of £36.6m. If the group managed to gain control of 5,000 buses it would become the third biggest operator in the US.

National Express has been under pressure to make a big acquisition. The group is ungaraged and ended last year with cash of £94.2m.

Phil White, chief executive, yesterday announced plans to invest \$95m this year in new trains and buses, against the £54m it spent in 1998. He said the passenger growth achieved last year had continued into the first few months of 1999.

"These results prove that

if you put money into public transport you get returns and if you don't put money in you don't get quality of service - and should not be surprised if people use other modes of transport," he said.

There are 113 trains on order, worth more than £300m, with 93 planned to come into service this year. Some 46 of the trains are in excess of franchise requirements.

National Express, which holds five rail franchises, plans to ask the UK government for extensions on its Central Trains, Silverlink and ScotRail operations, which it holds until 2004.

Mr White welcomed last month's announcement from John Prescott, deputy prime minister, who offered longer franchises in return for performance improvements.

The group's Midland Mainline and Gatwick Express franchises were negotiated on a longer basis.

Group turnover rose 16 per cent to £2.92bn.

BICC rejects Wassall bid

By Richard Rivlin, Susanna Voyle and Michael Peel

BICC, the struggling cables and construction company, has rebuffed a £379.3m (£611m) cash offer from Wassall, the hybrid industrial conglomerate and venture capital group.

Wassall, which specialises in buying underperforming businesses suffering from a lack of investment, made the offer a share offer to BICC on Friday. The company, which yesterday made public its approach, owns 9.3 per cent

of BICC, a stake built up over more than a year at a cost of £34m. Chris Miller, Wassall chief executive, said he wanted BICC shareholders to know about the offer so they could make up their own minds. The group is expected to speak to leading BICC shareholders - who are based mainly in the US - over the next few days.

Wassall is keen to obtain a recommended bid, but BICC investors are expected to be looking for substantially in excess of 100p a share.

Alan Jones, the BICC chief

executive who launched a restructuring when he was appointed in 1995, last night said his actions were starting to turn the group around. "This is not a firm offer," he said. "We discussed it carefully and firmly rejected it as it wholly undervalues the business."

BICC is expected to make a formal statement today. The offer is a premium of 57.9 per cent to the share price of BICC the day before Wassall's stake-building became public. The announcement was made

after the market closed and BICC shares closed 1½p down at 82p. The shares have underperformed the FTSE All-Share index by 46 per cent over the past 12 months and by 88 per cent over the past five years.

Mr Miller said the offer was fair because the BICC price was already buoyed by his group's interest. He dismissed speculation that the group was trying to flush out a higher bid to increase the value of its stake.

Wassall is advised by NM Rothschild.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends corresponding dividend	Total for year	Time last year
BICC Resources	Yr to Dec 31 142.7 (127.5)	2.34 (5.7)	4.8 (17.1)	5.3	May 21	5.2	7.5	7.6
BICC Resources	Yr to Dec 31 18.5 (17.7)	0.4424 (0.4444)	0.241 (0.01)	0.65	July 2	0.85	1.2	1.2
BICC Resources	Yr to Dec 31 62.4 (56.2)	75.84 (18.69)	31.021 (0.09)	0.65	May 21	1.75	1	2.75
British Telecom	Yr to Dec 31 43.2 (42)	0.0111 (0.469)	0.51 (3.29)	2.6	May 17	2.6	4	4
British Telecom	Yr to Dec 31 417.4 (447.1)	63.6 (62.3)	44.7 (47.9)	10.6	July 2	9.2	18.25	13.25
Churchill China	Yr to Dec 31 50.8 (53.9)	1.479 (8.129)	9.4 (40.1)	10.6	May 21	5.4	3	14.3
Clintel	Yr to Dec 31 170.8 (46.1)	5.564 (20.44)	2.9 (20.5)	0.3	May 12	0.3	0.3	0.3
Edinburgh Oil Gas	Yr to Dec 31 3.03 (4.37)	0.78 (0.51)	2.28 (1.45)	0.3	May 14	2	3.75	3.3
Fisher (James)	Yr to Dec 31 52.5 (62.3)	3.854 (6.789)	5.75 (14.27)	2.25	May 27	15.8	15.8	15.8
Garcon	Yr to Dec 31 327.8 (334.2)	49.89 (15.1)	67.8 (3.1)	15.8	July 2	6	12	10
Genet	Yr to Dec 31 22.1 (24.4)	28.1 (24.4)	30.3 (25.4)	7.2	July 2	6	12	10
Harbour Int'l	Yr to Dec 31 21.4 (19.9)	3.479 (1.854)	16.8 (9.9)	0.9	June 25	0.5	1.5	1
HR Owen	Yr to Dec 31 406 (378)	6.01 (4.12)	23.9 (14.5)	5	May 13	4	10	9
Irish Life	Yr to Dec 31 1,067.1 (925.42)	175.19 (154.1)	45.26 (40.22)	10.2	Apr 1	8.9	14.5	13.2
Irish Life	Yr to Dec 31 132 (116.9)	3.579 (0.2219)	3.19 (0.22)	0.576	Apr 23	4.15	7.3	6.5
Lalig (John)	Yr to Dec 31 1,507 (1,461)	20.1 (32.29)	14 (25.7)	7	July 2	7	10.75	10.5
Lia Edinburgh Pub	Yr to Dec 31 2.44 (0.623)	0.227 (1.02)	0.951 (3.34)	1	May 21	0.8	1.5	1
Logex	Yr to Dec 31 129.2 (116.5)	5.914 (3.954)	6.92 (4.35)	4.9	May 28	4.5	6	7.5
McPherson (Alfred)	Yr to Dec 31 723.8 (858.4)	24.54 (20.8)	12.5 (16.8)	4.9	May 28	1.7	0.75	0.8
MORIS	Yr to Dec 31 132 (116.5)	5.914 (3.954)	6.92 (4.35)	4.9	May 28	1.7	0.75	0.8
Northern (Mtn)	Yr to Dec 31 2,534 (2,297)	174.8 (151.4)	14.08 (12.52)	8	May 14	1.7	2.45	2.1
Northern (Mtn)	Yr to Dec 31 1,322 (1,134)	97 (54.84)	66.51 (34.2)	11.3	May 14	9.6	18	13.5
Oxford Molecular	Yr to Dec 31 21.5 (15.8)	1.28 (0.256)	2.3 (0.2)	2.7	May 28	1.8	4	3
Russell (Alec)	Yr to Dec 31 44.9 (42.8)	4.33 (2.8)	8.86 (6.72)	0.75	May 28	0.75	1.5	1.5
St James's Place	Yr to Dec 31 634.32 (673.42)	85.3 (91.8)	14.91 (8.1)	1.59	May 11	1.5	1.5	1.5
Thorp (FW)	6 mths to Dec 31 13.4 (13.2)	1.36 (1.59)	7.27 (8.47)	1.59	May 11	1.5	1.5	1.5
Town Centre Buses	6 mths to Dec 31 14.8 (14.7)	7.15 (5.88)	4.7 (3.5)	1.3	June 30	1.2	-	3.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. On increased capital. *Comparatives restated. †Irish currency. ‡Gross premiums written. §4m stock. ¶Comparatives pro forma. Excludes special.

ASTRA

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Astra AB will be held at 2 pm on Tuesday, April 6, 1999, at the City Conference Centre, Folkets Hus, Barnehusgatan 12-14, Stockholm. Also, shareholders who have accepted the offer concerning the merger between Astra AB and ZENECA Group PLC are eligible for participation in Astra AB's Annual General Meeting by giving notice under the regular proceedings according to what is stated below under "Notice of Attendance, etc."

Due to the proposed merger between Astra AB and ZENECA Group PLC, the Annual General Meeting of Astra AB will not deal with any other items of business than those prescribed by the Swedish Companies Act and Astra AB's Articles of Association.

INFORMATION MEETING ABOUT ASTRAZENECA

Provided that the merger between Astra AB and ZENECA Group PLC is consummated, the first Annual General Meeting of the merged company, AstraZeneca PLC, is preliminarily scheduled to take place in London on Friday, May 21, 1999. In connection with this, the company's management intends to hold an information meeting at the Stockholm Globe Arena at 6 pm on Wednesday, May 19, 1999, to which shareholders of AstraZeneca PLC will be welcome. At the information meeting, the board and management of AstraZeneca PLC will inform about the organization and plans for the merged company. In addition, it is planned that on this occasion special arrangements, such as presentations, exhibitions and refreshments, will be made. Further details as to the time and location of the Annual General Meeting of AstraZeneca PLC, as well as the notification procedure concerning the information meeting, will be announced through advertisements in daily newspapers.

NOTICE OF ATTENDANCE, ETC.

Shareholders recorded in the Swedish Securities Register Center (VPC AB) on Friday, March 26, 1999, will be eligible to participate in the Annual General Meeting of Astra AB. Shareholders wishing to attend must notify the Company not later than 3 pm Swedish time on Thursday, April 1, 1999, by mail at the following address: Astra AB, Legal Affairs, S-151 85 Södertälje, Sweden, or by telephone, Int+46-8-555 360 00.

To facilitate admission to the Meeting, proxies, registration certificates and other authorization papers should be presented to the Company in ample time prior to the Meeting, preferably in connection with notification to attend the Meeting.

Shareholders whose shares are registered in nominee names must, if they wish to participate in the Meeting, be temporarily recorded in the register of shareholders maintained by VPC AB. Shareholders must notify their nominee immediately, to ensure that their names are recorded in the register of shareholders by March 26, 1999.

Shareholders may attend and vote at the Annual General Meeting in person or by proxy. However, in accordance with Swedish practice, the Company does not send forms of proxy to its shareholders. Shareholders wishing to vote by proxy should submit their own forms of proxy to the Company.

Admission cards will be sent to shareholders who have notified their intention to attend the Annual General Meeting. Due to the arrival of the Easter weekend prior to the Meeting, it cannot be ruled out that admission cards will not be in shareholders' possession in time for the Meeting. Shareholders who for this reason have not received an admission card can instead pick up their cards on the day of the Meeting at the office located at the Meeting premises.

AGENDA

1. Opening of the Meeting
2. Election of chairman at the Meeting
3. Preparation and approval of the register of voters
4. Approval of the Agenda
5. Election of persons to check the minutes
6. Resolution that the Meeting has been duly convened
7. Presentation of the annual report and auditors' report, as well as the consolidated financial statements and auditors' report for the Group
8. Resolution on adoption of the income statement and balance sheet, as well as the consolidated income statement and consolidated balance sheet
9. Resolution on discharge from liability of the members of the Board of Directors and the President
10. The Board of Directors' and Managing Director's proposal for allocation of the funds available for distribution by the Annual General Meeting
11. The Board's proposed changes to the Articles of Association, listed below, necessitated by changes in the Swedish Companies Act

17 Change of meaning so that the auditors' assignment applies through the end of the Annual General Meeting held during the fourth financial year after the appointment of auditors.

19 Change of meaning so that approval of the Agenda shall be taken up for consideration by the Annual General Meeting, and change of meaning so that election of auditors and their deputies shall be conducted only where applicable.

20 Change of meaning so that notices to attend the Annual General Meeting shall be made by advertisement in the Official Swedish Gazette, Dagens Nyheter and Svenska Dagbladet, or other nationwide daily newspaper.

21 Change of meaning so that the number of assistants accompanying shareholders shall be stated in connection with notification to attend the Annual General Meeting, and change of meaning so that the last day for notifying intent to attend the Annual General Meeting may not be prior to the fifth work day (previously the day) preceding the Meeting.

22 Determination of the number of members of the Board of Directors and deputy members

23 Election of members of the Board of Directors and deputy members

24 Election of the auditors and deputy auditors or election of one or two auditing firms

25 Determination of the remuneration for the Board of Directors and the auditors

26 Adjournment of the Annual General Meeting

Proposals for election of members of the Board of Directors and auditors, and for remuneration for the Board of Directors and auditors, will be announced at a later occasion.

PROPOSED DIVIDEND AND APPROPRIATION OF EARNINGS

As a result of the differing dividend payment profiles of Astra AB and ZENECA Group PLC, it is proposed that Astra AB's dividend for the 1998 financial year shall be equalized with ZENECA Group PLC's second interim dividend for 1998, as set forth in the Merger Document and in ZENECA Group PLC's Registration Statement on Form F-4 filed with the U.S. Securities and Exchange Commission. The Board of Astra AB proposes a dividend from Astra AB of 1 krona and 90 öre per share.

The amount available for appropriation by the Annual General Meeting includes retained earnings from financial year 1997, totalling SEK 14,520m, and net earnings for the year, totalling SEK 11,127m, for a total of SEK 25,647m. The Board's proposal entails the following appropriation of earnings: to the shareholders (with exception for the event stated below), a dividend of SEK 3,122m; to be retained, SEK 22,525m.

In the event that AstraZeneca PLC - as a result of the offer to Astra AB's shareholders as set forth in the Merger Document and in ZENECA Group PLC's Registration Statement on Form F-4 filed with the U.S. Securities and Exchange Commission - is registered in the register of shareholders of Astra AB on the adopted record date for payment of dividends by Astra AB for the 1998 financial year, the Board proposes that the following shall apply: The dividend amount stated above, SEK 3,122m, shall be reduced by 1 krona and 90 öre for each share in Astra AB to which AstraZeneca PLC is entitled to the dividend, as a result of which the amount stated above to be retained, SEK 22,525m, shall be increased to a corresponding degree. Accordingly, this entails that the dividend is not payable to AstraZeneca PLC, and that the Board's proposed appropriation of earnings - which is also included in the accounting records - for such case be changed in accordance with the above-mentioned. This, however, does not entail any amendment with respect to the proposed dividend of 1 krona and 90 öre per share in Astra AB for shareholders who have not accepted the Merger Offer.

The Board proposes Friday, April 9, 1999, as the record date for the dividend from Astra AB. Provided that the Annual General Meeting votes in favor of the proposal, dividends are expected to be sent from VPC AB on Friday, April 16, 1999.

Under the condition that the merger between Astra AB and ZENECA Group PLC is completed no later than on April 9, 1999 (which date is the proposed record date for dividend also for AstraZeneca PLC), the intention is that shareholders who have accepted the offer, and who thereby are shareholders in AstraZeneca PLC, will receive a dividend of 28 pence per share in AstraZeneca PLC.

Södertälje, Sweden, March 1999
The Board of Directors

Helicopter makers' moment of truth has yet to arrive

Yesterday's deal between Agusta of Italy and Westland heralds further consolidation in the industry, writes Alexander Nicoll

David Wright's prediction "this will not complete the restructuring of the helicopter market" - can scarcely be disputed. Helicopters, which make up a special enclave within the aerospace industry, require big investments in technology. But demand is limited: sales this year are estimated at \$6bn in the western world. In spite of rationalisation which has already taken place, six manufacturers remain.

The planned pooling of GKN's Westland helicopter business with the Agusta interests of Finmeccanica of Italy will reduce the number to five, each with a remarkably symmetrical 20 per cent of the market. Mr Wright was yesterday designated chairman of the joint venture.

However, each of the participants has an intricate web of relationships with the others. Westland makes the Apache helicopter under licence from Boeing, and has a joint venture with the US company to supply Apache training under a \$650m contract. Westland and Agusta have also produced helicopters under licence from Sikorsky, a subsidiary of United Technologies.

Agusta already has a joint venture with Bell Helicopter, a subsidiary of Textron of the US, and is a partner with Eurocopter, the Franco/German joint venture, in the four-nation NH-90 programme.

"Even after this deal," Mr Wright says, "people will still want to share in collabo-

ration projects. That is a strong indicator that the market is not big enough to support all the participants independently."

Mr Wright, a GKN director, says issues of shareholder value will determine what will be the next move: whether it is a consolidation of the two European companies or a deeper partnership between one of them and a US group.

But for the time being, his focus will be on seeing the GKN/Agusta joint venture past regulatory hurdles and into existence, and then winning savings from it.

Westland's plant at Yeovil, Somerset is busy. It has a \$6.3bn order book and is in full production of the EH-101, a medium-sized helicopter developed jointly with Agusta. It is supplying 44 EH-101 Merlin anti-submarine warfare models to the Royal Navy - although the prime contractor is Lockheed Martin of the US - and 22 transport models to the Royal Air Force. A total of 98 have been ordered. GKN will also deliver 67 WAH-64 Apache attack helicopters to the UK between 2000 and 2003.

Of the two partners, Agusta has a wider and newer range of models and probably better prospects for orders in the longer term. Its \$2.2bn order book would receive a big boost if the French, German, Italian and Dutch governments this summer place an order for the first 150 NH-90 tactical transport helicopters.

Also promising is Agusta's joint venture with Bell. Its

48 per cent share is being brought into the GKN deal. This will give the new company greater opportunities in the civil market - currently all of Westland's helicopters and 80 per cent of Agusta are bought by military customers. The AB139, a transport-utility helicopter, and the BA609 with tilt rotor technology, both being developed with Bell, appear to be its models of the future.

"We're putting together something that has got a lot of strength in the immediate years with something that has a lot of strength downstream," Mr Wright says.

Westland, which employs 4,800, recruited 500 staff last year to cope with stepped-up production. Agusta has 5,200 staff but is, Mr Wright says, a more vertically integrated business. Each has only one helicopter assembly plant, but Agusta has a number of factories which feed parts into the assembly.

No plant closures are planned. The venture will seek to make savings by bringing together the two partners' purchasing activities to win greater leverage with suppliers, and by a rationalisation of production processes.

The venture is the second to underpin the future of GKN's defence businesses. Last year, a consortium which included its armoured vehicles division won a competition to supply the next generation of armoured personnel carriers. GKN promptly sold the division to Alvis of the UK, in which it took a 29 per cent stake. In helicopters, it will now have a 50 per cent stake which could eventually be diluted, come the further consolidation predicted by Mr Wright.

EURO PRICES

EQUITIES

Wall St and bonds fail to lift bourses

EUROPEAN OVERVIEW

By Florian Gimpl

European shares put in a lacklustre performance yesterday in spite of a rise on Wall Street and a fall in European bond yields. Oil stocks, however, continued to soar in response to higher oil prices.

The European Central Bank's decision to leave

interest rates unchanged was announced after European markets had closed.

US shares and bonds were buoyed by a rise in jobless claims and low inflation figures, both allaying fears of higher inflation.

The US consumer price index rose only 0.1 per cent in February, reducing the likelihood of an interest rate rise by the Federal Reserve at its rate-setting committee

meeting on March 30. But the good news from the US failed to inspire the European markets, leaving the FTSE Eurotop 100 3.42 lower.

Activity was largely driven by the oil sector, with Brent for May delivery rallying 70 cents to \$13.97.

France's CAC 40 added 1.48 per cent and Total 1.67 per cent. Italy's Eni jumped 5.53 per cent to €5.94 in late trading as Eni's Agip was reported

to have made the first private sector oil and gas discovery in Venezuela since the nationalisation of oil assets in 1976.

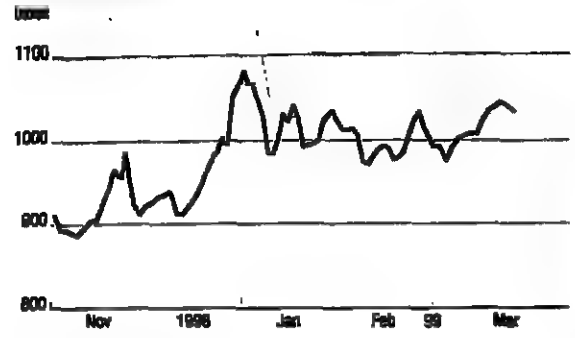
Deutsche Bank proved yesterday's loss leader, closing 2.05 per cent lower at €51. The shares were weighed down by the announcement of a larger than expected equity increase aimed at funding its recent takeover of Bankers Trust Corp.

German investor sentiment received an additional damper from a fall in the Ifo business sentiment index for February, suggesting Germany was "technically in recession", as one analyst put it.

European small-cap stocks have become increasingly attractive, according to a report by BT Alex Brown. It claimed a shift towards small-cap stocks had occurred in recent weeks, with the broader Distavium European index outperforming the large-cap based FTSE index by 115 basis points at its peak.

The dividend yield on the broader index moved at a 9 per cent premium to the narrower index, suggesting there was greater value in the small-cap sector. But the report also warned of potential pitfalls, including a lack of liquidity and high exposure to cyclical downturns.

FTSE Eurotop 100



Source: FTSE International

THREE MONTH EUROPEAN FUTURES (LIVER) €/m 100-100									
	Open	Sett. price	Change	High	Low	Est. vol.	Open int.	Open bid	Open ask
Mar	97.115	97.115	+0.040	97.155	97.115	14077	14077	97.115	97.115
Apr	97.140	97.140	+0.040	97.180	97.140	44672	153471	97.140	97.140
May	97.160	97.160	+0.040	97.200	97.160	18446	94281	97.160	97.160
Jun	97.180	97.180	+0.040	97.220	97.180	15518	78598	97.180	97.180

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May	97.160	97.160	+0.040	97.200	97.160	18446	94281	97.160	97.160
Jun	97.180	97.180	+0.040	97.220	97.180	15518	78598	97.180	97.180

THREE MONTH EURO LIBOR FUTURES (LIVER) €/m 100-100									
	Open	Sett. price	Change	High	Low	Est. vol.	Open int.	Open bid	Open ask
Mar	97.115	97.115	+0.040	97.155	97.115	14077	14077	97.115	97.115
Apr	97.140	97.140	+0.040	97.180	97.140	44672	153471	97.140	97.140
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May	97.160	97.160	+0.040	97.200	97.160	14077	14077	97.160	97.160
Jun	97.180	97.180	+0.040	97.220	97.180	14077	14077	97.180	97.180
Jul	97.200	97.200	+0.040	97.240	97.200	14077	14077	97.200	97.200
Aug	97.220	97.220	+0.040	97.260	97.220	14077	14077	97.220	97.220
Sep	97.240	97.240	+0.040	97.280	97.240	14077	14077	97.240	97.240
Oct	97.260	97.260	+0.040	97.300	97.260	14077	14077	97.260	97.260
Nov	97.280	97.280	+0.040	97.320	97.280	14077	14077	97.280	97.280
Dec	97.300	97.300	+0.040	97.340	97.300	14077	14077	97.300	97.300

CONTRACTS & TENDERS

The Democratic Republic of Congo
Ministry of Finance and Budget

TENDER FOR THE SELECTION
OF A PRE-SHIPMENT INSPECTION COMPANY

The Government of the Democratic Republic of Congo invites sealed proposals from international reputable companies for the provision of PSI services covering imports. Interested companies will be required to submit their bid in one original and five copies to the Conseil des Adjudications du Gouvernement C/o Direction des Marchés Publics; avenue de l'Ouganda no.4204, Gombe, Kinshasa in two separate sealed envelopes:

- Envelope "A" will contain technical data to be used for pre-qualification
- Envelope "B" will contain price proposals.

Tenders must be received at the above address before 5 May 1999 at 10:00 am, when public opening will take place.

Proposals should remain valid up to 5 July 1999. They must contain a Bid bond worth US Dollars \$50,000 or its equivalent in convertible currency, established in the name of the Ministry of Finance and Budget. The Bid bond is liable to forfeiture, should the Bidder choose to withdraw his/her bid between the time of the public bids opening and the expiry of the validity period, or fail to accept and sign the contract established in terms with his/her proposal by the Ministry of Finance and Budget.

Interested Companies can obtain a copy of the Request for Proposals, through a formal request on Company stationery signed by an authorized representative, from:

Conseil des Adjudications du Gouvernement C/o Direction des Marchés Publics at the above address, upon payment of a non-refundable amount equivalent to US Dollars \$10,000, payable in Congolese Francs into the account of the Accountant; avenue des Huilleries no. 4404, (Cabinet du Ministre des Postes, Téléphones et Télécommunications), Gombe, Kinshasa.

For further information please contact the Office Congolais de Contrôle, 98 Av. du Port Kinshasa/Gombe, Fax: 243-1221974.



CESP Companhia Energetica de Sao Paulo
Companhia Aberta - C.N.P.J. 00.933.603/0001-78

PRIVATIZATION OF COMGAS

DIRECTIVE COUNCIL OF PRIVATIZATION STATE PROGRAM
INVITATION TO BID NR. AS/F/805/99

SALES OF SHARES OF THE CAPITAL STOCK OF
COMPANHIA DE GAS DE SAO PAULO

CESP - COMPANHIA ENERGETICA DE SAO PAULO, by itself and on behalf of Sao Paulo State Government in accordance with the provisions of the State Law No. 9,361, of July 5, 1996, discloses the conditions of the privatization of Companhia de Gas de Sao Paulo - COMGAS, by sales shares of its capital stock, for the MINIMUM PRICE FOR THE AUCTION OF R\$ 119.35 (One hundred nineteen reais and thirty five cents) for 1,000 (one thousand) shares, which auction will occur at 9:00 a.m. of April 14th 1999, at BOVESPA - Bolsa de Valores de Sao Paulo, located at Rua XV de Novembro, 275, City and State of Sao Paulo. The procedures for the sale of shares shall be governed by the provisions of the Invitation to Bid NR. AS/F/805/99 and exhibits thereto, by the Instructions Manual of BOVESPA and by the deliberations of the DIRECTIVE COUNCIL OF PRIVATIZATION STATE PROGRAM.

The invitation to Bid NR. AS/F/805/99 and other documents will be available from March 17th, 1999 to March 28th, 1999, at addresses and schedules mentioned below, upon receipt confirmation in the amount of R\$ 500.00 (five hundred reais) in BANESPA account: 0154 - 05 - 000778 - 8, Account Name: CESP Companhia Energetica de Sao Paulo.

CESP COMPANHIA ENERGETICA DE SAO PAULO
Supply Department - AS

Rua Bela Cintra, 847 - 2nd floor - Sao Paulo - SP

Phone Number: 55-11-3138-7242

Schedule: 9h30 to 11h30 and 13h30 to 16h00.

BOVESPA - Office in Rio de Janeiro

Rua XV de Novembro, 275 - 5th floor

Sao Paulo - SP

Phone Number: 55-11-233 2178 or 233 22 81

Schedule: 9h00 to 16h00

BOVESPA - Office in Rio de Janeiro

Rua XV de Novembro, 275 - 5th floor

Sao Paulo - SP

Phone Number: 55-11-233 2178 or 233 22 81

Schedule: 9h00 to 16h00

Supply Department



INVITATIONS FOR BIDS

The Lithuania Road Administration now invites sealed bids from suppliers for the following contracts:

Lot 1: 2 units Truck (4x4) with the change over equipment for road maintenance works in summer and in winter.

Date of delivery to Lithuania - 150 days after the date of signing the Contract.

Lot 2: 1 unit High-performance, automated, single-lane, track mounted grade trimmer with re-claiming conveyor system.

Date of delivery to Lithuania - 60 days after the date of signing the Contract.

Tendering of contracts is open to international companies. Bidders are permitted to tender for one or both Lots.

Tender documentation packages may be obtained at the address below upon payment of a non-refundable fee of US \$ 250 for every Lot (excluding bank tax) via an irrevocable bank cheque for foreign bidders, until March 31, 1999.

If requested, the documents will be promptly despatched by air mail, but no liability can be accepted for loss of late delivery. Only parties who purchase the tender documentation packages will be considered eligible to submit the bids.

All bids must be delivered at the address given below before 11 a.m. local time on May 3, 1999 when they will be opened in the presence of the bidders' representatives who wish to attend.

Prospective bidders may obtain further information from and buy tender documentation packages by contacting Mr. Juozas Kondrotas, Director of State Property and Service Division, Lithuanian Road Administration, 36/2 Basanavicius Street, LT-2009 Vilnius, Lithuania.

Tel. +370-2-235849, +370-2-337565, fax +370-2-231362.

We want your business.

For more information on business please call:
Tel: +44 171 873 3349
Fax: +44 171 873 3064

BUSINESSES FOR SALE



For Sale

As a Going Concern

ONE OF SCOTLAND'S

PREMIER HOLIDAY PARKS

LOCATED IN THE

A9 CORRIDOR

A composite well rounded business developed over approximately 16 acres.

* Developed with 215 Holiday Caravans (26 Touring and 189 Holiday Statics)

* 9 Self-Catering Apartments

* Manager's Accommodation

* Swimming Pool and Saunas

* Restaurant and Lounge Bar

Freehold - Price on Application

Sole Selling Agents

FOX LEISURE

Tel: Glasgow 0141-353-3678

Tel: York 01904-693926

E-mail: FoxLeisure@paul-co.demon.co.uk

The Joint Administrative Receivers offer for sale the business and assets of Victor Cast Ware Limited which specialises in cast iron and chrome kitchenware/cookware:

* Turnover c.£3m

* Blue chip customer base

* Retail outlet in Birmingham

* Stock of c.£1.5m

For further information please contact Ian Best or Tom Lukic of Arthur Andersen, 1 Victoria Square, Birmingham B1 1BD. Tel: 0121 223 2200. Fax: 0121 643 7897.

ARTHUR ANDERSEN

Arthur Andersen is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

INTERNET & MULTI-MEDIA

Well established, profitable and rapidly growing company designing, developing and maintaining Web Sites for blue chip client base and major organisations.

Future potential may best be realised through strategic alliance or merger with major organisation in related areas.

Contact Ben 6338, Financial Times, One Southwark Bridge, London, SE1 9EL.

Motor Dealerships

For Sale

* Established 1983

* Established reputation & product portfolio

* Two prime locations along M4 corridor

* Substantial income & growing trade

* Strong client base & excellent trading record

See BS551, Financial Times, One Southwark Bridge, London SE1 9EL.

LEGAL NOTICE

LOWINE (RUSTLER) LIMITED

Registered number: 1645881

Former company name: LOWINE (RUSTLER) LIMITED

Notice of business transfer

Date of appointment of Joint Administrators: 12 March 1999

Name of appointees: The Bank of Scotland and ROYAL BANK OF CANADA

Joint Administrators: ROYAL BANK OF CANADA and ROYAL BANK OF CANADA

Address: 100 Victoria Street, London EC6C 2DA

For further information please contact the Joint Administrators at the above address.



Grosvenor Lifestyles PLC

The Joint Administrative Receivers offer for sale the business and assets of this provider of quality services to the leisure industry.

Principal features include:

* Grosvenor Spas - management of quality health facilities at several hotel locations

* A superior gym facility at Aylesbury (with over 350 members)

* Management contracts with prestigious clients (over 2000 members)

* 70% interest in Grosvenor Inglewood Limited - the management company of the Inglewood Health Hydro facility.

For further information, please contact Chris Lavery or Irvin Cohen at: KPMG, 20 Farringdon Street, London EC4A 4PP. Telephone 0171 311 1000 or Fax 0171 311 3607

KPMG Corporate Recovery

KPMG Corporate Recovery is a division of KPMG which is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

HUMBERTS LEISURE

On the instructions of Holiday Club Pontins' Chichester, West Sussex

Profitable holiday village

* 121 holiday chalets & 51 hotel bedrooms (about 388 guest bed spaces)

* Substantial central licensed clubhouse

* Heated swimming pool and leisure facilities

* 22 staff bedroom units & 2 staff houses

* In all about 2 ha (5 acres)

For sale freehold

12 BOLTON STREET MAYFAIR LONDON W1P 7PA

TEL: 0171 639 6700 FAX: 0171 409 6475

email: info@humberts-leisure.com

CHARLES & RAYMOND

CHARTERED ACCOUNTANTS

LEGAL NOTICE

No. 340 of 1999

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

No. 00741 of 1999

IN THE MATTER OF

CHRONWELL CLEANING COMPANY

(LONDON) LIMITED

and

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was at 4 March 1999 presented to Her Majesty's High Court of Justice for the winding up of a company of the name of CHRONWELL CLEANING COMPANY (LONDON) LIMITED.

AND NOTICE IS FURTHER GIVEN that the Petition is directed to be heard before the Companies Court Judge in the Royal Courts of Justice, Strand, London, WC2A 2LL on Monday, 29 March 1999.

ANY creditor or shareholder of the said company desiring to oppose the making of an Order for the winding up of the said company should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requesting the same by the undersigned solicitors on payment of the regulated charge for the same.

DATED this 19 day of March 1999

Nabarro Nathanson

The Anchorers

34 Bridge Street

Reading

Solicitors for the Company

Solicitors for the above-named Company

CONTRACTS & TENDERS

BANK OF CRETE S.A.

CALL FOR EXPRESSIONS OF INTEREST IN PURCHASING THE TOTAL ASSETS OF ECON INDUSTRIES S.A.

Bank of Crete S.A. (15 Vasileosofia Street, Athens 106 71), as special liquidator of the company ECON INDUSTRIES S.A. established at Marousio in Attica, hereafter "the company" which has been placed under special liquidation as per article 46 of Law 1892/1990 by Decision No. 7164/1998 of the Athens Court of Appeal, invites interested buyers to submit written twenty(20) days from the date of publication of the present, a non-binding expression of interest in purchasing the assets of the company mentioned below.

BRIEF DESCRIPTION

The company was founded in 1969. In May 1997, it started to operate and on 22-07-98 it was placed in special liquidation in accordance with article 46a of Law 1892/90. The company used to manufacture and sell engineering, electro-optical and electronic products.

ASSETS FOR SALE

In order to purchase the assets of the above company, now in special liquidation, prospective buyers may submit:

Either an offer for the purchase of the total assets or a separate offer for the purchase of one or of the company's functional assets as listed below. With regard to the third entity which contains assets that do not serve the company's functional requirements, it is to be noted that offers may be submitted for separate assets listed in it (Para. 11 article 46a of Law 1892/90 as supplemented by article 53 of Law 2224/94).

A. FIRST ENTITY

An industrial complex in the municipality of Marousio in Attica, on a plot of land about 30,000 m2 in area with buildings covering about 3,000m2 and 1,500m2 under construction (concrete panels) with the factory's electromechanical equipment which consists of:

1) A Fitting Shop

2) An Optical Department which contains optical coating equipment and auxiliary measuring and checking equipment.

3) An Electronics Department which contains equipment for fabricating and checking printed circuit boards and other electro-optical elements.

4) A Quality Control Department

5) A workshop with small, conventional machine tools and equipment, for processing metal surfaces and small pieces.

6) Air conditioning, installations, electrical (refrigerating) equipment, a telephone exchange and security systems.

Also for sale are the company items and trademark.

B. SECOND ENTITY

An industrial complex in the in the precincts of the municipality of Spata in Attica, in a plot of land of about 52,800 m2 with buildings covering about 4,800 m2 with screw and bolt manufacturing machinery.

C. THIRD ENTITY

Includes non-functional assets of the company in liquidation such as:

1) 2,377,110 shares with a nominal value of 500 drachmas each, out of a total of 4,332,600 shares, with a total share capital of Dr. 2,165,300,000, representing a 54.87% ownership by ECON INDUSTRIES in "ELVIMEDIC" (Hellenic Explosives and Ammunition Industry S.A.) established in Amfissia in Attica.

2) 163,200 shares with a nominal value of 1,000 drachmas each, out of a total share capital of 570,000,000 drachmas representing a 28.63% ownership by ECON INDUSTRIES in EPURUS FOUNDRIES S.A. established at Likieria in Viotia.

3) 778,039 shares with a nominal value of 1,000 drachmas each out of a total share capital of 778,039,000 drachmas, representing a 100% ownership by ECON INDUSTRIES S.A. in "MEKANOV" (Metallic Constructions of Volo S.A.) established in the 1st industrial Zone of Volo.

The specific content of the above entities will be contained in the Offering Memorandum and in the Call for Tenders which is to follow.

SALE PROCEDURE

The sale will be made through a public call for tenders in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/1991 and later amended) and the terms of the relative call for tenders which will be published in the Greek and foreign press within the time limits required by law.

SUBMISSION OF EXPRESSIONS OF INTEREST - INFORMATION

In order to submit expressions of interest and to receive the detailed offering memorandum and additional information, interested parties should apply to:

BANK OF CRETE

15 Vasileosofia Street, 106 71 Athens, Greece

Tel. (301) 3623001-4 Fax: (301) 3631113

(also Messis, Zach. Kerasiras - Mich. Stasinakis)

or to the company's head offices at

MAROUSIO, ATTICA

Tel. (00299) 40533 and (30299) 40334

(att. Messis, Zach. Kerasiras - Mich. Stasinakis)



Morris Hanbury Jackson LeMay Limited

The Joint Administrative Receivers offer for sale the business and assets of Morris Hanbury Jackson LeMay Limited, Yalding, near Maidstone, Kent, a long established hop merchant, purchasing hops and hop products for sale to the national and international markets.

Key features:

* c.£5m turnover per annum

* extensive worldwide customer base

* well-developed specialist hop processing machinery and equipment

* freehold operational site in Yalding, near Maidstone

* freehold investment property in Paddock Wood, Kent

* wholly owned trading American subsidiary

* Stocks c.£1.5m

* 14 employees

For further information contact Stephen Trehaime, Joint Administrative Receiver at: KPMG, Arlington Business Park, Theale, Reading RG7 4SD. Telephone 0118 964 2253 or Fax 0118 964 2284.

KPMG Corporate Recovery

KPMG Corporate Recovery is a division of KPMG which is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

The Joint Administrators Gary Bell and Richard W Traynor offer for sale the business and assets of

GOLDEN HILL GARAGE LTD

* New car franchise and second hand car dealership.

* Freehold site in Lancashire, comprising workshop, showrooms and offices. Total net internal floor area 338.5 sq.m.

* Established 10 years, 8 employees.

* Estimated turnover £1.8 million p.a. Approximately 20% of turnover represented by new car sales.

For further information please contact Gary Bell at Begbies Traynor, Elliot House, 151 Deansgate, Manchester M3 2BD. Tel: 0161 839 0900. Fax: 0161 832 7436

BEGBIES TRAYNOR

APPOINTMENTS

SALESPERSON

This leading international financial services company wishes to appoint a Salesperson for Convertible Bonds to deal with equity markets and trade convertibles in the USA, London and the Far East. Client focus will primarily be US-based hedge funds and knowledge and specific work experience in this region is essential.

Duties will also include developing spreadsheets and valuation models as well as regular contact with customer base in the USA. Applicants must have in-depth knowledge of fixed income products, retail and institutional sales and trading flow experience, as well as a degree in Finance. Salary circa £40,000.

Please write, enclosing full curriculum vitae, to Box A6813 Financial Times, One Southwark Bridge, London SE1 9HL

PUBLIC NOTICE

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

CURRENCIES & MONEY

Euro tossed around by waves of data

MARKETS REPORT

By Alan Miles and
Melanie Carroll

The euro was buffeted around yesterday as a weak German business confidence survey and a yawning US trade deficit pushed it first down and then up.

The Ifo business confidence survey arrived at the time of maximum impact, as market nerves were heightened by the European Central Bank policy meeting.

In the event the data did not convince the ECB to defy market expectations and cut rates, the no-change decision after the end of the European trading session causing the euro to blip up in a desultory fashion.

The Ifo survey, released early in European trading, showed German business confidence weaker than expected. Despite the apparent reluctance of the ECB to cut interest rates based on

the German industrial sector, the euro fell on the news, breaking down below the \$1.10 level as the market shaved another few basis points off the expected level of euro-zone interest rates in coming months.

But the euro recovered some of its losses later in the day when the US trade deficit unexpectedly widened to \$16.99bn, threatening the sustainability of the US current account deficit.

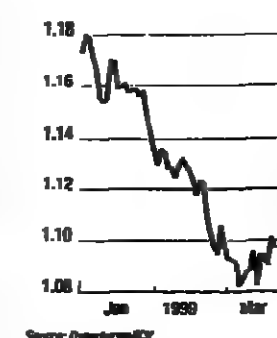
The euro closed at \$1.089 against the dollar at the end of London trading. It fell to \$1.079 at the start of the day, which continued to strengthen on rumors of large end-of-year capital inflows to Japan. The dollar also weakened against the yen, to close at ¥117.8.

POUND SPOT FORWARD AGAINST THE POUND

Mar 18	Chasing bid-off	Change	1 month	3 months	6 months	1 year	2 year	3 year	JP Morgan
Germany	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Austria	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Belgium	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
France	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Italy	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Spain	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Portugal	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Greece	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Finland	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Sweden	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Denmark	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Netherlands	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Switzerland	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Japan	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
USA	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Canada	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
UK	100.00	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Euro

Against the dollar (\$ per €)



Source: International

The Swedish krona

followed its Norwegian counterpart higher yesterday, after falling earlier in the week.

The krona has had a difficult week, in which it was hit by the release of two opinion polls showing weakening support for Sweden to join EMU. Peter Lindqvist, analyst at HSBC in Stockholm, said the opinion polls had prevented the krona from strengthening relative to the Norwegian krona.

OTHER CURRENCIES

Mar 18

Country	Unit	Rate	Change
Canada	100 CAD	70.15	+0.05
Denmark	100 DKK	136.75	+0.10
France	100 FF	6.55	+0.01
Germany	100 DM	1.089	+0.001
Italy	100 Lira	2036.27	+0.01
Japan	100 Yen	117.8	+0.01
UK	100 Pounds	0.693	+0.001

The prospect grows of an

OPEC agreement finally having some effect on world oil

production, was believed to

be the reason for the Norwegian

krona's rise.

After opening just below

the SKR9.00 level against the

euro in London yesterday,

the Swedish krona fell to

SKR9.02 before climbing to

close in London at SKR9.04.

The Norwegian krona closed

one per cent higher against

the euro at NKR4.61.

Mr Lindqvist said he

thought Sweden would vote

in favour of joining EMU in

2002 in next year's referendum.

He expected the krona to

be at about SKR9.50 by

that time. Unlike in the UK,

the expected entry rate is

higher than the current spot

rate, so rising EMU entry

expectations tend to drive

the Swedish krona higher.

The Norwegian krona was

also due for a rally, having

been driven unfairly low

recently by weak oil prices,

he said.

WORLD INTEREST RATES

MONEY RATES

Mar 18	Over night	One month	Three months	Six months	One year	Local inter.	Repo rate
Canada	5.25	5.25	5.25	5.25	5.25	-	3.00
Denmark	4.75	4.75	4.75	4.75	4.75	-	1.00
France	4.75	4.75	4.75	4.75	4.75	-	4.50
Germany	4.75	4.75	4.75	4.75	4.75	-	0.50

IF 3 MONTH LIBOR

London interbank offering rate (LIBOR) is the 3-month London interbank offering rate.

LIBOR rates are quoted for the US Dollar and Yen, against the US Dollar and Yen.

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CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 18	Rate	Change	1 month	3 months	6 months	1 year	2 year	3 year	JP Morgan
Germany	100 DM	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Austria	100 S	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Belgium	100 B	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
France	100 FF	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Italy	100 L	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Spain	100 P	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Portugal	100 Esc	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Greece	100 Dr	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Finland	100 Mk	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Sweden	100 Kr	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Denmark	100 Dkr	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Netherlands	100 Gld	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Switzerland	100 Fr	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Japan	100 Yen	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
USA	100 \$	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Canada	100 Cdn	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00
UK	100 £	+0.0000	100.00	100.00	100.00	100.00	100.00	100.00	100.00

UK INTEREST RATES

LONDON MONEY RATES

Mar 18	Over night	One month	Three months	Six months	One year
Interbank	5.25	5.25	5.25	5.25	5.25
Bank	5.25	5.25	5.25	5.25	5.25
Local authority	5.25	5.25	5.25	5.25	5.25
Discount	5.25	5.25	5.25	5.25	5.25

UK clearing bank base lending rate 5% per cent from Feb 4, 1998

Up to 1 month

Rate	Change	1 month	3 months	6 months	1 year
5.25	+0.00	5.25	5.25	5.25	5.25

Certs of Tax dep. (£100,000)

Rate	Change	1 month	3 months	6 months	1 year
5.25	+0.00	5.25	5.25	5.25	5.25

Mar 18

Rate	Change	1 month	3 months	6 months	1 year
5.25	+0.00	5.25	5.25	5.25	5.25

Mar 18

Rate	Change	1 month	3 months	6 months	1 year
5.25	+0.00				

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

• FT Choline Vinyl Trust Prices are available over the telephone. Call the FT Choline Help Desk on (+44 171) 873 4376 for more details.

[illegible]

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

AXA Investment Managers Paris

AXA Investment Managers Paris is a leading global asset manager, providing a wide range of investment solutions for institutional investors. The company's portfolio includes a diverse mix of equity, fixed income, and alternative investments, all managed with a focus on long-term value creation.

AXA Investment Managers Paris - Key Fund Performance Data:

Fund Name	Assets Under Management (AUM)	Investment Focus
AXA Global Equity Fund	\$1.2B	Global Equity
AXA Global Fixed Income Fund	\$850M	Global Fixed Income
AXA Global Alternative Fund	\$650M	Global Alternative

STATE STREET ON SPECIALIZATION

QUITE POSSIBLY.
At State Street, we're focused on the institutional investor.

THE WORLD'S ONLY
All of our products, services and technologies are dedicated

\$4.8 TRILLION
to help them in every aspect of the investment process. We

NICHE PLAYER.
are a world leader. But first and foremost, we are specialists.

State Street Global Advisors
Serving Institutional Investors Worldwide

Global Asset Management - Central

Global Asset Management - Central is a leading global asset manager, providing a wide range of investment solutions for institutional investors. The company's portfolio includes a diverse mix of equity, fixed income, and alternative investments, all managed with a focus on long-term value creation.

Global Asset Management - Central - Key Fund Performance Data:

Fund Name	Assets Under Management (AUM)	Investment Focus
Global Asset Management - Central Equity Fund	\$1.5B	Global Equity
Global Asset Management - Central Fixed Income Fund	\$950M	Global Fixed Income
Global Asset Management - Central Alternative Fund	\$750M	Global Alternative

Global Asset Management - Credit

Global Asset Management - Credit is a leading global asset manager, providing a wide range of investment solutions for institutional investors. The company's portfolio includes a diverse mix of equity, fixed income, and alternative investments, all managed with a focus on long-term value creation.

Global Asset Management - Credit - Key Fund Performance Data:

Fund Name	Assets Under Management (AUM)	Investment Focus
Global Asset Management - Credit Equity Fund	\$1.8B	Global Equity
Global Asset Management - Credit Fixed Income Fund	\$1.1B	Global Fixed Income
Global Asset Management - Credit Alternative Fund	\$900M	Global Alternative

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INVESTMENT TRUSTS - Continued

	Notes	Price	%
Paragon European	117 1/2	-2 1/2	
Paragon Int'l & Gwth	139 1/8	-1 1/2	
Warrants	38 1/2	-3 1/2	
Paragon Japan	40 1/4	-1 1/2	
Warrants	8	-1 1/2	
Paragon UK Strk Crd	342 1/2	+1 1/2	
Paragon Assets	219 1/8	—	
Paragon Trust	78	—	
Warrants	18 1/2	—	
Profit Income	133	-1 1/2	
Warrants	38 1/2	-3 1/2	
Paragon Ind	256 1/2	-3 1/2	

2-86 Wm L. Allen	200	12
Redwood	200	12
Redwood North Life	200	12

[illegible]

Tarleton Est.	300	1-1	12
Templeton Est.	100	4-1	12
Winnipeg 2004	200	1-1	12

[illegible]

Asset Management Inc. 49 810 11 79

[illegible]

Board Inc: Seas Zoro Pl	113%	---	11
Reptone Flight Enter Inc	147%	---	100

[illegible]

Cap	162	-1	186
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Accounts Payable	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046
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	$\frac{703}{113\frac{1}{2}}$	$\frac{104}{117\frac{1}{2}}$
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Henderson AMP Company

LONDON STOCK EXCHANGE

Fifth day of falls drags Footsie closer to 6,000

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

There was marginal respite yesterday for an increasingly weary-looking UK equity market as the leading stocks rallied from their worst levels but still finished on the downside.

Initially burdened by another poor showing by Wall Street overnight, where the Dow Jones Industrial Average looked increasingly reluctant to have another tilt at the 10,000 mark, at least in the short term, the

FTSE 100 fell away from the fifth straight session.

And hefty losses in Tokyo and Hong Kong, down 3.4 per cent and 2.6 per cent respectively, did nothing to bolster London's flagging confidence.

The slide in the FTSE 100 would have been more severe had it not been for a powerful performance from the oil majors, which account for more than 11 per cent of the index, in the wake of the latest rise in the crude oil price. It moved above the \$13-a-barrel mark for the first time since October on expectations that the

Opec meeting on March 23 would ratify significant production cuts.

At the finish of a trading session that saw turnover pick up during the afternoon, the FTSE 100 settled 36.3 off at 6,114.3, taking the loss over the past five days to 231.4 or 3.5 per cent.

A "take profits" recommendation in the banks issued by Lehman Brothers, one of the influential US brokers, was one of the big factors driving the FTSE 100 sharply lower in the morning. Barclays, Lloyds TSB and Abbey National were among those most affected.

At its worst, Footsie was down 65.7 at 6,074.9, and there were plenty of observers worrying that the index could drop below 6,000.

Similarly, the second and third-rank stocks continued to lose ground and, unlike the FTSE 100, the FTSE 250 and FTSE SmallCap indices closed not too far from their session lows.

The FTSE 250 settled 22.0 down at 5,463.3 after hitting a day's low of 5,460.0, while the FTSE SmallCap ended 1.1 off at 2,373.8 after a session low of 2,372.9.

A painstaking and gradual return of confidence on Wall

Street, where the Dow picked up to post a gain of nearly 40 shortly after London closed, was behind the market rally here.

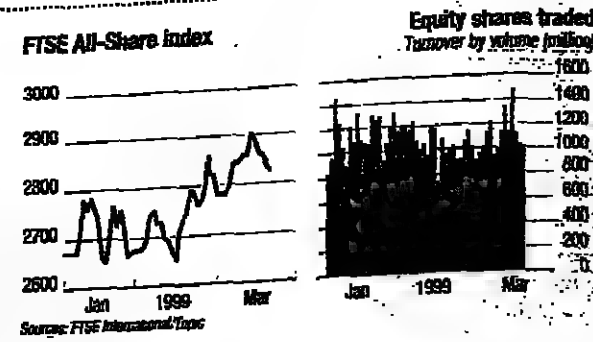
But dealers were becoming increasingly nervous about Wall Street's ability to stage another attack on 10,000 and the FTSE 100's apparent unhappiness much above the 6,000 mark.

"There has been some strategic manoeuvring in the market in the run-up to this morning's big expiry in the March FTSE future and index options, and the market could well rally as we get those out of the way,"

said one marketmaker. There was more takeover activity, with Goldsmiths, the jewellery retailer, attracting a management buy-out and BICC, the cables maker, rejecting a 90p-a-share bid from conglomerate Wassell.

On the other hand, profit warnings continued to cause dismay and hefty share price declines - Norbair, the electronics group, and Mansfield Brewery were the latest casualties.

Turnover at 6pm was 1.17bn shares, split almost equally between Footsie and non-Footsie stocks.



Indices and ratios				
FTSE 100	6114.3	-36.3	FT 30	3716.4
FTSE 250	5463.3	-22.0	FTSE Non-Fins gte	24.38
FTSE SmallCap	2373.8	-1.1	FTSE 100/Fort. Rat	613.90
FTSE All-Share	2373.8	-1.1	10 yr gtd yield	4.6
FTSE All-Share yield	2.88	-2.88	Long gtd/yldy yield ratio	1.72
Best performing sectors			Worst performing sectors	
1 Oil exploration & Prod	+3.6		1 Alcoholic beverages	-4.5
2 Oil integrated	+3.0		2 Electronic & Elect Equip	-2.9
3 Insurance	+2.6		3 Household Goods & Texts	-2.8
4 Electricity	+2.5		4 Household Goods & Texts	-2.8
5 Tobacco	+2.1		5 Telecommunications	-1.9

Banks
join Irish
festivities

COMPANIES REPORT

By Peter John, Martin Brice
and Simon Iremhoff

There was no St Patrick's Day hangover for the Irish banks yesterday as a couple of brokers highlighted their relative merits.

In a review of the Irish bank sector, Morgan Stanley Dean Witter repeated an "outperform" rating on Allied Irish Banks and raised its rating on Bank of Ireland to "strong buy" from "outperform", setting a price target of £16.80 on the stock.

In addition, WestLB Panmure issued a positive note on the banks, saying the economy was growing faster than in the UK. Bank of Ireland rose 37¢ to £12.21, and Allied 30¢ to £10.10.

Meanwhile, the UK banks came under pressure with Lehman Brothers saying they are overvalued and advising profit-taking. Also, Panmure stressed its dislike of the mortgage lenders.

Barclays fell 40¢ to £17.83. Abbey National 18¢ to £12.62. Woolwich 4¢ to £7.11 and HSBC 5¢ to £19.23 after big falls on the Hang Seng.

British American Tobacco moved forward 15¢ to £34p on a "buy" recommendation from HSBC Securities. The broker believes the merger

with Rothmans, cleared by the European Union on Wednesday, will be complete by June and will outweigh litigation concerns.

In addition, dealers said Kenneth Clarke, the former UK chancellor, and a director of BAT, had bought 1,899 shares at 528p each.

Life insurer St James's Place Capital improved 2½ to 284½p after announcing a 67 per cent profit rise and saying it faced less margin pressure than its rivals.

The long-expected approach by Wassell to BICC came at last but, unsurprisingly, was rejected. The announcement came

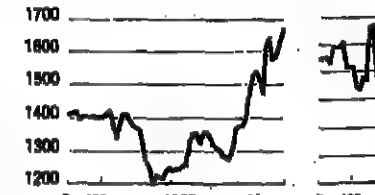
after the market closed, but before dealers ceased BICC was off 1½ at 82p while Wassell, which has a 9.3 per cent stake in its target, gained 2½ to 208½p.

Diageo was the worst performer in the Footsie as investors took fright at the prospect of a line of stock overhanging the market. The latest worry came from Bernard Arnault, chairman of LVMH, saying his company would not own its 11 per cent stake in three years' time.

The stock fell almost 5 per cent or 34½ to 67½p as the remarks at LVMH's annual results presentation took

Best and worst performing FTSE sectors

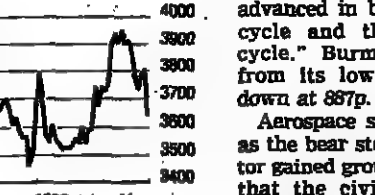
Oil Exploration & Production



Source: DataStream/ICI

Alcoholic Beverages

Alcoholic Beverages



Source: DataStream/ICI

their toll. The prospects of a sale of the stake, which LVMH has said is not a core strategic holding, has unsettled the stock before.

Hopes that shipping and transport group P&O would announce an increase in the dividend for the first time since 1980 prompted buying pressure in the stock, which rose 40¢ to 780p.

The bull story was supported by figures from P&O Nedlloyd, the joint venture between Royal Nedlloyd and P&O, particularly by news that trading in Asia was improving.

Results from P&O next week are expected to produce an underlying result ahead 10 per cent, while technical research by Teather & Greenwood highlights the prospect of further out-performance in the stock.

Oil stocks set the pace for the bulls as the price of Brent left 813 behind and headed for \$14.

BP Amoco lifted 27¢ to £10.38 and Shell Transport 15¢ to 412p while the battered exploration and production stocks burst into life. Enterprise jumped 27¢ to 340p and Lascmo 3½ to 139½p.

PowerGen received a boost of 18 to 692p from Goldman Sachs, the US broker, which upgraded its stance after an analysts' visit to the generator's East Midlands Electricity operation this week.

Goldman came away from the seminar "with the impression that management is making good progress with the integration of East Midlands".

It upgraded the stock to "market outperformer" saying the shares had been unfairly ignored and deserved to be bought up to 860p.

The broker also highlighted its preference for Scottish and Southern Energy as "the most compelling value play in the sector" with a target price of 700p. The shares gained 25 to 543p.

EMI meeting
Music company EMI jumped 20¢ to 418p following a weak spell and ahead of today's meeting with institutional investors.

Zeneca continued its strong run, gaining 79 to £35.95 as the index weighing pressure ahead of its merger with Astra of Sweden gained pace.

Beckitt & Coleman dipped 26½ to 691½p with pressure coming from Williams de Broe. The broker says this year is likely to be a transitional period.

It says earnings should recover next year but adds: "At the current share price,

we would propose a switch into lower-rated Burnham Castrol, which is Asian advanced in both the Asian cycle and the marketing cycle." Burnham recovered from its lows to close 15 down at 887p.

Aerospace stocks were off as the bear story on the sector gained ground amid fears that the civil side of the aerospace industry was set to enter a downturn.

Smiths Industries suffered in the wake of results that showed much of its growth was coming from the aerospace side. It was off almost 4 per cent or 33½ to 819½p. On Monday it closed at £10.74. However, it remained well above its 10 day low of 824p, reached amid global market turmoil in October.

Other aerospace-related stocks also suffered, with Rolls-Royce off 11½ to 556p.

First Choice rose 17½ to 178½p after the company outlined to analysts the benefits of the proposed merger with Kuoni of Switzerland. Some specialists still believe there will be a counter bid, possibly from Airtours, down 6 to 480p.

Football shares regained some of yesterday's losses as fevered speculation continued over the contents of the Monopolies and Mergers Commission report on the proposed takeover of Manchester United, up 1 to 220p, by BSkyB, down 6 to 834½p.

Contradictory reports are emerging in the press. One analyst said: "Certain parties are obviously interested in forcing [UK trade secretary] Stephen Byers to come out with the report sooner rather than later."

However, few in the City believe the bid will be blocked. Aston Villa rose 15 to 865p.

There were further problems in the pottery sector as Churchill China, down 9½ to 86, issued a profits warning and said it would not be paying a final dividend.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFE) £10 per full index point

Month	Open	Settle	Change	High	Low	Est. Vol	Open
Mar	6112.0	6114.0	-2.0	6115.0	6112.0	47682	6112.0
Jun	6100.0	6103.0	-3.0	6105.0	6100.0	3894	6103.0
Sep	6070.0	6073.0	-3.0	6075.0	6070.0	0	6073.0

FTSE 250 INDEX FUTURES (LFFE) £10 per full index point

Month	Open	Settle	Change	High	Low	Est. Vol	Open
Mar	5460.0	5463.0	-3.0	5465.0	5460.0	2117	5463.0
Jun	5430.0	5433.0	-3.0	5435.0	5430.0	788	5433.0
Sep	5400.0	5403.0	-3.0	5405.0	5400.0	0	5403.0

FTSE 100 INDEX OPTION (LFFE) £10 per full index point

Call 2.74 Mar 2.34

Month	Open	Settle	Change	High	Low	Est. Vol	Open
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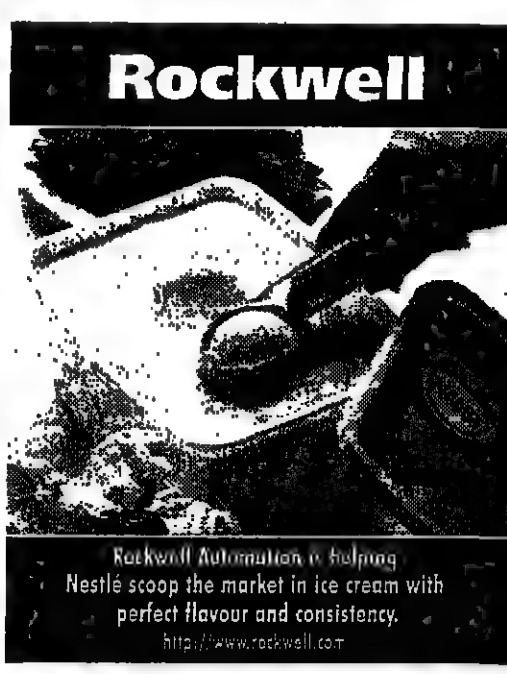
FTSE 100 INDEX OPTION (LFFE) £10 per full index point

18	3.17	2.39	15.02	15.49	1197.03	Calberry Schweppes	8,214	180
19	2.87	3.35	11.36	8.10	1358.52	Celina Davies	3,199	5700
0	3.74	3.23	13.08	0.60	994.18	Compass	5,000	1000
2	4.43	1.58	17.07	39.78	1100.21	Daily Mail & Geo.	2,082	801
	5.50	4.08	15.00	2.00		Dagen	147	2285
							7,885	6706

Highs and Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €									
AUSTRIA (Mar 18) € = 13.7600 Sch									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
BELGIUM (Mar 18) € = 40.3300 Fl									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
GERMANY (Mar 18) € = 1.9360 DM									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
NETHERLANDS (Mar 18) € = 2.2037 Fl									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
POLAND (Mar 18) € = 5.4575 Zlot									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
FINLAND (Mar 18) € = 0.0067 Pn									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
IRELAND (Mar 18) € = 0.7876 Pn									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
ITALY (Mar 18) € = 1.9360 Lit									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
PORTUGAL (Mar 18) € = 200.4800 Esc									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
SPAIN (Mar 18) € = 166.3800 Pn									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Greece (Mar 18) Dracmas									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
TURKEY (Mar 18) TL Liras									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
JAPAN (Mar 18) Yen									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
KOREA (Mar 18) Won									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
HONG KONG (Mar 18) HK\$									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
MALAYSIA (Mar 18) MYR									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
NEW ZEALAND (Mar 18) NZ\$									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
SOUTH AFRICA (Mar 18) Rand									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
THAILAND (Mar 18) Baht									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
PHILIPPINES (Mar 18) Pn									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
INDONESIA (Mar 18) Rp									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
AUSTRALIA (Mar 18) A\$									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
CANADA (Mar 18) C\$									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
USA (Mar 18) \$									
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Alpine	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80



FT/SP ACTUARIES WORLD INDICES										Emerging markets:									
The FT/SP Actuarial World Indices are owned by FTSE International Limited, London, and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in cooperation with the local Actuarial and the Institute of Actuaries.										IPC Investable Indices									
REGIONAL AND NATIONAL MARKETS										DOLLAR INDEX									
US Dollar Index										Market									
Day's Change										Day's % Chg									
Index										20/10/92									
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4 pm close March 18

IN.SECTS (Pan European Sector Indices from EuroBench®)

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Price data supplied by *Financial Times Information*

Yearly highs and lows for NYSE listed period from Jan 1 1980. Unless otherwise noted, rates of dividend are annual distributions based on the latest declaration. Volume figures are weighted. d=one yearly low P/E price-earnings ratio, vol-volume, d=one year high p-e=dividend or earnings, yd-price, z-zones in fall. a Decision announced

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STOCK MARKETS

Equities uninspired as bank rates on hold

WORLD OVERVIEW

Equity markets looked generally uninspired yesterday as some bourses approached derivatives expiries and investors searched for reasons to maintain the recent rally, writes Philip Coggan.

New York, Frankfurt and London all have derivative contracts expiring today. Normally such double or triple witching days are marked by volatility in share prices and can result in

investor caution ahead of the event.

European markets showed little sign of optimism that the European Central Bank would cut rates - a view confirmed after the continent's markets closed - despite more evidence of weakness in the region's core economy.

The latest Ifo survey of business confidence in Germany showed a further weakening with the index falling to 89.8 from 91.1. That

followed Wednesday's statement from the German finance ministry that there was no sign of an early economic pick-up.

Meanwhile, US consumer price data showed, as expected, a 0.1 per cent rise on the month, leaving the headline rate of inflation at 1.6 per cent.

The data was seen as confirmation that the Federal Reserve would have no reason to raise rates when its open market committee next

meets on March 30. Wall Street was mixed in early trading with the Dow still well short of the 10,000 mark briefly reached on Tuesday.

In Asia, the recent strong run of the Tokyo market came to an abrupt halt, with the Nikkei 225 falling 3.4 per cent - and back below 16,000 - as investors rushed to take profits.

Hong Kong also slipped back, although the Hang Seng stayed well above the 10,000 level.

The issue of whether Japan has turned the corner is attracting much debate among the global investment community.

Jason James of HSBC Economics says: "Cynical views on restructuring are understandable, but the pace and quality are clearly picking up. We believe the recent firmer tone in the stock market is justified by this and that there is further upside."

Goldman Sachs comments: "There is definitely a long-

term positive case for Japanese equities if cyclical recovery and widespread restructuring result in a re-rating of the market."

"However, our Tokyo-based economists and strategists are not convinced that economic recovery will be sustained or that restructuring will prove to be meaningful. We are not tempted to overweight the Japanese market and we remain neutral versus the global benchmark."

Investors on the Tallinn stock exchange took this month's parliamentary elections in their stride, confident that the outcome would confirm Estonia's commitment to liberal economic policies, accession to the European Union, and the currency board, which pegs the kroon to the D-Mark.

Indeed, a three-party centre-right alliance won a slim majority in the March 7 poll. The new government is likely to focus on overhauling Estonia's bloated public administration, and plans to lower corporate taxes on reinvested income.

The news has barely moved the TALSE index. After gaining 1.7 per cent last week, it has given back 2.5 per cent in four days.

Nonetheless, the bourse has been riding high on the tail of the success of the initial public offering last month of Estonian Telecom. The stock, priced on issues at EKR105, was initially trading at about EKR115. The share price came down to about EKR105 yesterday, but the euphoria has spread to other blue chips.

Expecting across-the-board gains, small investors have piled into the shares of leading banks Hansabank and Uhisbank. Hansabank, partly owned by Sweden's Swedbank, has rebounded from its dismal performance last year. It has posted strong results in the first two months of 1999, and has convinced the market it has dealt effectively with its loan portfolio, which was hit by the collapse of Estonian exports to Russia last year.

Stock in Uhisbank, partly owned by Scandinavian Enskilda Bank of Sweden, has shared Hansabank's good fortune. "There was a kind of spill-over effect from Telecom and Hansabank... into Uhisbank, which was not really justified," said Paavo Pold, banking analyst at Tallinnvest Supreme Securities in Tallinn.

Personnel services group Adeco rose sharply, adding SF72 to SF780. Analysts were unable to point to any news to account for the rise, but said a foreign bank was buying the stock.

Speculative buying sent ABB SF77 higher to SF1,227 amid rumours that the company intended to sell its power plant business to French engineering firm Alstom. ABB declined to comment.

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EMERGING MARKET FOCUS

Poll confirms switch to west

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Nonetheless, the bourse has been riding high on the tail of the success of the initial public offering last month of Estonian Telecom. The stock, priced on issues at EKR105, was initially trading at about EKR115. The share price came down to about EKR105 yesterday, but the euphoria has spread to other blue chips.

Expecting across-the-board gains, small investors have piled into the shares of leading banks Hansabank and Uhisbank. Hansabank, partly owned by Sweden's Swedbank, has rebounded from its dismal performance last year. It has posted strong results in the first two months of 1999, and has convinced the market it has dealt effectively with its loan portfolio, which was hit by the collapse of Estonian exports to Russia last year.

Stock in Uhisbank, partly owned by Scandinavian Enskilda Bank of Sweden, has shared Hansabank's good fortune. "There was a kind of spill-over effect from Telecom and Hansabank... into Uhisbank, which was not really justified," said Paavo Pold, banking analyst at Tallinnvest Supreme Securities in Tallinn.

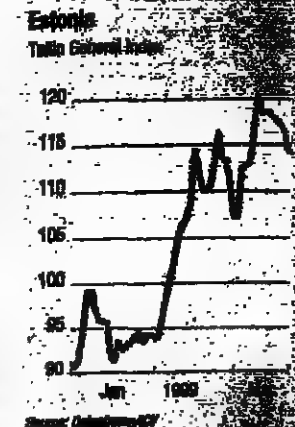
Personnel services group Adeco rose sharply, adding SF72 to SF780. Analysts were unable to point to any news to account for the rise, but said a foreign bank was buying the stock.

Speculative buying sent ABB SF77 higher to SF1,227 amid rumours that the company intended to sell its power plant business to French engineering firm Alstom. ABB declined to comment.

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Analysts consider this bank's deposit base, top heavy with government funds, as volatile. Its loan book has been shrinking, and it has yet to convince investors it has a clean bill of health. "Hansabank has convinced investors that it has weathered the crisis last year. Uhisbank still has to do that," Mr Pold added.

In spite of the gloom-and-doom talk that marred the electoral campaign, the Estonian economy is looking, if not vibrant, at least solid. The current account deficit, whose size used to raise fears of a forced devaluation, has subsided to about 9 per cent, and interest rates have decreased substantially.

While many companies are still trying to cope with the loss of Russian sales, there are signs exporters are not waiting for a Russian recovery, but seeking new markets in the west, said Aaro Jarvan, economic adviser to the prime minister.

The cautious optimism has even affected Norma, a seabed maker and one of Estonia's top exporters to Russia. Though it has at times had to resort to barter with its Russian partners and is struggling to switch some production toward western customers, its stock has risen on rumours of a dividend and Telecom euphoria.

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Dow climbs back above 9,900 level

AMERICAS

US shares picked up as cautious buying helped to send the Dow Jones Industrial Average back above the 9,900 level, writes John Labate in New York.

Since briefly touching the 10,000 mark earlier in the week, investors have been slowly unloading shares, suggesting that market sentiment was hurt more than helped by adding a fifth digit to the blue-chip index.

But higher prices in the internet and financial sector helped boost the market early on. By early afternoon the Dow was 23.26 higher at 9,903.27. The broader Standard & Poor's 500 index was even stronger, up 8.08 or 0.6 per cent at 1,395.01.

Helping the mood on Wall Street were higher prices in the US Treasury market after the release of a stronger-than-expected trade deficit in January.

The new figure has forced analysts to trim back their expectations of first-quarter gross domestic product, and helped to boost the price of the 30-year bond. It was up 1/8 in midday trading to 98 1/2, sending the yield down to 6.474 per cent.

Among Dow stocks, American Express was 3 1/4 higher at \$124 1/4 after J.P. Morgan initiated coverage of the financial services company with a "buy" rating.

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Among the most active issues, Boston Scientific, a producer of medical devices, soared 5 1/4 to \$38 1/4 after CS First Boston raised its rating. Frontier Corp, the telecoms company, was 1 1/4 higher at \$53 1/4 after the company confirmed plans for it to be acquired by Global Crossing in a \$1bn deal.

The Nasdaq composite index gained 14.69 at 2,443.69. Internet stocks were boosted after book retailer Barnes & Noble announced details of its initial public offering for its online division, news that sent the company's shares more than 17 per cent or \$6 higher at \$83 1/4. Its rival, Borders Group, gained 3 1/4 or more than 7 per cent at \$15 1/4.

TORONTO was little changed at midsession as gains in energy and base metals were all but cancelled out by weakness in real estate, precious metals and communications. The 300 composite index was 2.05 higher at 6,596.37 in active volume of 54.4m shares.

The oil and gas sector climbed 3.6 per cent on the back of firmer oil prices, which rose to five-month highs before pulling back.

Shares in T. Eaton's tattered retail empire rose for a second day as investors bought into revived takeover rumours. Eaton's shares climbed 85 cents or 34 per cent to \$3.35.

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EUROPE

Weakness in market heavy-weight France Telecom, coupled with losses in Tokyo and a fragile-looking rally on Wall Street, kept PARIS in the red despite a last-minute comeback. The CAC-40 ended 17.64 off to 4,152.37.

LVMH dismissed the bearish mood, forging €10.70 or 4.9 per cent ahead to €231.20 after the company confirmed it had registered a rebound in activity in 1999.

LVMH's subsidiary, Christian Dior, also rose on the news despite reporting a net 1998 fall in net profit. Shares added €4.80 or 4.3 per cent to €118.

Canal Plus was back into the black following a seven-day fall after Goldman Sachs raised its target price for the stock.

The FTSE Europe 300 index fell 3.42 or 0.27 per cent to 1,842.43. See Euro Prices page.

the stock. Shares in the group rose €12.50 or 5.3 per cent to €238.51.

Chargeurs ran into its upper limit to close €5.10 or 11.3 per cent ahead to €50.20 after the company said it would buy 25 per cent of its shares.

France Telecom failed to surprise investors with inline 1998 results that sent the shares €1 lower to €75.50.

An upbeat 1999 profit forecast did not dispel the gloom although the stock pared some of its losses in late trading.

Eridania Beghin-Say lost €5 to €126 after the company downgraded its 1999 earnings forecast on the back of low prices for starch products and narrow margins on oilseeds.

FRANKFURT was weaker although the Xetra Dax index recovered from its lows to close safely above 5,000 after a thin, uncertain session ahead of today's triple witching futures and options expiry. The blue-chip index finished 38.80 lower at 5,028.70.

Siemens bucked the trend, climbing 81 cents to €82.10 on news that it was buying another US internet company and planned to shed 1,800 jobs in its power-plant division.

Degussa-Huels was a loser, 72 cents lower at €34.50 in the wake of news that it planned to spin off three non-core businesses.

Deutsche Bank gave up €1.07 to €51 after announcing plans to increase its equity capital to fund its Bankers Trust acquisition and prepare for consolidation.

Profit-taking also hit Sony, which had been on a rising streak. Yesterday it lost 4.49 per cent to ¥11,070.

Several issues hit record highs on positive news. Japan Tobacco, which reportedly tied up with Zeneca, hit ¥1,511m before closing at ¥1,251m, up ¥140,000.

SEOUL tumbled 3.6 per cent as program buying, which supported the market in the morning, collapsed in the afternoon. The composite index pulled back from a high of 605.96 to close 21.54 lower at 578.93.

Brokers said futures-linked buying, estimated at about Won800m in the morning, tumbled to nearly zero in the afternoon.

Brokers said the positive effect from a pledge by unions at Kia to engage in no labour disputes and Moody's positive report on South Korea disappeared towards the close. Kia finished Won200 lower at Won7,100.

HONG KONG fell 2.6 per cent as Tokyo's slide prompted profit-taking, but brokers said the sell-off was overdone and a rebound looked likely soon.

The Hang Seng index closed 280.75 lower at 10,659.32 but off the day's low of 10,570.15. Turnover was HK\$6.5bn, up from Wednesday's HK\$6bn. Finance and property stocks pulled the index down. HSBC fell HK\$3 to HK\$235 and Hang Seng Bank HK\$3 or 4.1 per cent to HK\$69.75.

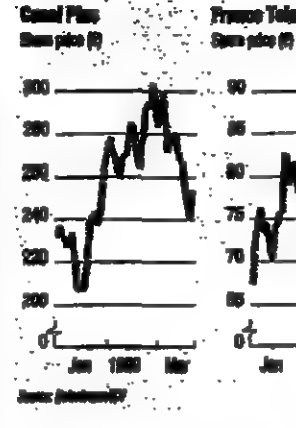
TAIPEI shot up to a 1999 high amid mounting evidence that foreign investors are re-allocating funds into Taiwan. The weighted index closed 137.94 or 2 per cent higher at 6,885.01, a 26.9 per cent increase since the market began its recovery on February 5.

The electronics sector, the market's most heavily weighted constituent, surged 3 per cent. Taiwan Semiconductor added T\$4 to T\$109, while microchip packaging company ASE hit its upper limit, settling T\$3 higher at T\$82. Another big riser was the paper and rubber sector, up more than 4 per cent.

MANILA was also boosted by foreign buying. The composite index ended 41.26 or 2.1 per cent higher at 2,024.05. Traders attributed the rise to lower interest rates. Sentiment was boosted after the government said it stood by its 1999 growth target despite concern voiced by the World Bank.

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A capital idea in search of consensus

Corporate governance is being taken seriously. **Jane Martinson** examines the search for an agreed code of behaviour and the differences that stand in the way of that being achieved

In the wake of stock market turmoil in Asia, Russia and Brazil, corporate governance became a popular phrase among the world's politicians and policy-makers.

Evidence of corruption and badly regulated capital markets set off alarm bells among investors who had previously appeared unconcerned about low levels of communication and transparency in some companies and countries.

Alongside calls for greater regulation to curb the excesses of hedge funds and investment banks were demands for much better management. Governance, hardly an undisputed method of increasing prosperity in developed markets, was being seriously talked about as a means for emerging economies to win back the capital that had fled to safer shores during the crisis.

From being a little-used term five years ago, corporate governance is now the subject of endless courses and conferences in universities in the UK and US in particular. It is a term used when shareholders sack chief executives, demand dramatic strategic changes or sell shares.

The exalted level of the discussions - with some of the world's leading policy-

makers adding their own views - suggested that corporate governance had come of age. The various financial crises added impetus to debates raging in the world's most developed capital markets about what good governance was, what it was actually for and how it could be achieved.

Some commentators argue that differences over how to achieve good governance are driven by differences over why. Is the point of corporate governance to increase shareholder returns, prevent corruption, improve economic and social welfare, or to do all of these things?

Such questions have prompted an outpouring of research by the world's leading multilateral organisations. Over the past year, the OECD, the World Bank and the Commonwealth Association for Corporate Governance (CAGG) have all issued some sort of communiqué on the issue of corporate governance. At the same time, private sector bodies such as the International Corporate Governance Network have been working on their own guidelines to set minimum corporate governance principles for the world's companies to operate by.

The increased interest and debate has in many ways

served to raise as many questions as it answers.

Bob Garratt, the newly installed visiting professor of corporate governance at London's Imperial College who helped write the draft code for the CAGG, says: "Corporate governance is suddenly flavour of the month and it's terrifying."

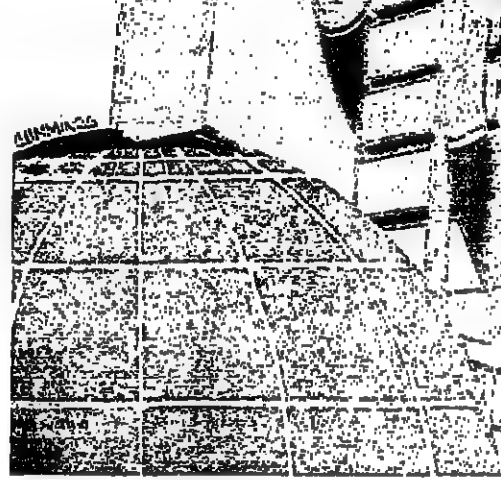
He believes that unless governments and multinational authorities are serious about bringing out banking reform and improving capital markets and regulation around the world, codes of conduct on corporate governance will achieve little.

Action is hampered by the fact that there are fairly wide differences of opinion about what corporate governance is for and how it should be brought about.

Some of these are highlighted by differences between the draft code of conduct issued by the OECD, due to be finalised in the next few months, and that drafted by the Commonwealth's own corporate governance association.

Although both reports offer support for what Mr Garratt at CAGG calls the three overriding principles of good governance - accountability, probity and transparency - there are significant differences.

The Commonwealth



report, perhaps understandably, is targeted directly at the development of good governance in emerging markets.

The report was first launched at a conference in October 1997 with a specific remit to look at how those markets could become more attractive targets for inward investment.

Mr Garratt says there are four main differences between the two papers. These are over board performance, stakeholders rather than shareholders, the inclusion of the public as well as private sector and whether it is right to try to create a set of values rather than a

"one size fits all" model.

Put simply, Mr Garratt argues that his paper veers towards the value approach, seen as pro-emerging market, while the OECD offers the alternative more shareholder-focused, developed market view. The OECD argues with this simplification but the argument suggests the width of the gap in some areas.

An OECD team was established last summer following a draft report to look at governance across 28 countries with input from the International Monetary Fund, World Bank and IOSCO.

The final report, which will set out a series of principles to follow, is expected to

be passed following a final meeting of the committee in April followed by a meeting of OECD ministers in May. It will be non-binding and will aim to recognise the different cultures and traditions of the member states.

Detractors of these multilateral codes argue that they are too broad and difficult to police to have much impact.

The needs of Madagascar, for example, which wants to attract funds from other parts of Africa, is very different from those of the UK, where a wide-ranging company law review is seeking to redefine a company's relationship with its stakeholders following three high-level reports on

corporate governance.

But Andre Baladi, the Geneva-based financier and co-founder of the ICGN, argues that the code of conduct published by the OECD last year, for example, is in danger of putting too much emphasis on the process rather than the end result.

"It's too bothered with the process of things such as voting behaviour and the independence of directors, but I am interested in returns on my investment - that is the point of corporate governance," says Mr Baladi.

This argument goes to the heart of the debate about corporate governance. Directors, whose performance is more closely measured because of this

increased interest in corporate governance, could be forgiven for being confused about what exactly they should be doing.

The danger is that the debate becomes so amorphous that little is actually done.

However, the many questions raised are serving to increase awareness. As institutional investors from the US and UK spend more money outside their home market, the issue of good governance is likely to spread. Few countries in the world which wish to attract such investment can afford to ignore good governance, for whatever reason.

Sometimes we find answers to problems where we least expect them.

Sometimes they turn up on the third green. Because even when we're not in the office, our heads are into our clients' businesses. Like when and tested the first-ever Web application to report real-time election results for the city of Rome. Unisys people from three continents clock to make it happen in just one month. When you need to do things never done before, a partner obsessed with succeeding really

we designed, developed worked round the helps.



UNISYS

We eat, sleep and drink this stuff.



FT Director

Throughout Europe company boards are coming under pressure to comply with standards of behaviour and procedure that just a few years ago would have been considered unnecessary. As capital markets expand, companies wishing to tap them are being required to meet ever higher standards of conduct and procedure. Meanwhile, corporate governance codes are emerging from a variety of quarters in the US, Europe and elsewhere. The corporate governance debate, indeed, is gathering pace with a number of initiatives likely to converge later in the year. The subject is a central theme of this issue of the FT Director, with an overview of developments being complemented by reports on the changing climate in France, Germany, Italy and the UK. From these it is clear that there is division over the best course of action, for example, between those who believe there should be a "one code fits all" approach and those who feel that there should be agreed values that should be fashioned to suit the circumstances of the developed and developing world. A complementary article looks at the greater social responsibility that is becoming expected of companies.

And as the prospect of recession hovers over much of Europe we examine the danger signals for companies and some of the courses of action they might take in order to be better prepared for it.

In this issue we also discuss the implications of a single currency for the vehicle fleet management industry, already well developed in the UK and now becoming a bigger force across much of the rest of Europe.

In the next issue in June there will be a detailed analysis of the development of risk management, together with articles on the roles of company doctors and of intrapreneurs.

Any comments on this issue and suggestions for future coverage would be welcome. Please contact Nicholas Leslie, Editor, FT Director, FT Surveys, Number One Southwark Bridge, London SE1 9HL. Direct Tel: +44 (0)171 873 4157. Fax: +44 (0)171 873 3197. Email: nick.leslie@ft.com

For copies of the synopsis of the next issue, or for details to advertisement positions, please contact William Macleod at the above address. Tel: +44 (0)171 873 3999. Fax: +44 (0)171 873 4296. Email: William.Macleod@ft.com

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Roberto Colaninno, chairman of Olivetti, on an acquisition trail that would until recently have been unthinkable

ITALY by Paul Betts

Severe test for new regime

Olivetti's bid for Telecom Italia indicates how far the corporate climate has progressed

Italy's new corporate governance rules embraced in the so-called "Draghi Law" are undergoing a baptism of fire.

Olivetti's hostile €53bn (\$49.5bn) bid for its much bigger Italian telecommunications rival, Telecom Italia, has put the country's new financial deregulation and corporate governance regulations at severe test.

So far, the initial signals are that the rules appear to be working and are helping to reshape and modernise Italy's capitalistic system and structure in a far more dramatic way than anyone would have imagined a few years ago. "It would be wrong to underestimate what is happening. The situation is much improved and the international markets should recognise this," says Salvatore Bragantini, a commissioner of the Italian stock market regulator, Consob.

Before joining Consob, Mr Bragantini, a former merchant banker, was one of the harshest critics of Italy's big business system. In a hard-hitting pamphlet called *Capitalismo all'italiana* he

already warned that the days of Italian family capitalism were numbered. "It is quite absurd to think that in a series of new independent regulatory authorities to referee the process of market liberalisation."

Italian companies are now obliged to draw up more transparent balance sheets, report their financial results on a half yearly basis (some are already reporting quarterly results), and organise meetings with analysts who have grown in substantial numbers in the past two years. The remuneration of company directors must now be reported, even though this is currently being challenged by one large company in the courts. Insider trading, always a prominent feature of the Italian market, is now subject to more efficient and swifter investigations, albeit still lacking the sharpness of teeth necessary to dissuade significantly the practice.

Companies themselves have been forced to adapt and modernise their structures to respond to the challenges of global markets and Italy's membership of European monetary and economic union. Large industrial groups traditionally controlled through a cascade of holding companies - "Chinese boxes" as they are popularly known in Italy - are streamlining their structures by reducing the number of holding companies to release greater value to shareholders. And the growing appetite of Italian retail investors for equities in the face of the sharply lower government bond yields has provided companies with further stimulus to enhance shareholder value.

But it is the Olivetti bid for Telecom Italia - the largest post second world war hostile takeover attempted in Europe - that is providing the catalyst for change. The fact that such a bid should have been mounted in Italy, where big deals have traditionally been stitched up behind closed doors between a restricted network of large industrial companies and financial institutions, is all

the more remarkable. "Nothing will quite be the same again," says a Milan investment banker. "The fact that a monolith such as Telecom Italia can become prey to a much smaller company through a highly leveraged bid means that other big groups have become possible targets," he adds, suggesting that the open market is finally coming of age in the country.

Precedents are now being set, especially on the interpretation of the country's new takeover rules. The stock market regulator has been particularly vigilant in making sure that the application of these rules responded to the broad issue of an open market financial system. When Olivetti first announced its intention to bid for Telecom Italia, Consob, the regulator, judged the original offer invalid because it did not provide the required information to the market and was subject to too many conditions. This was seen as a first round success for Telecom Italia.

But a week later, Consob gave the go ahead for Olivetti's re-jigged offer (the price remained the same) because it felt the company this time had provided sufficient information to the market, such as the timing in April of the formal offer to the market. Round two thus went to Olivetti, because under the new takeover regulations a company under attack is restricted in taking defensive action and introducing poison pills unless it calls a shareholders' meeting in which at least 30 per cent of the voting share capital is represented. For a company like Telecom Italia, with more than 1.5m shareholders, this is quite a tall order.

Whatever the outcome of what is being described as "the mother of all takeover battles", one thing is clear. Italy, against most expectations, is increasingly adopting an Anglo-Saxon approach to capitalism. The old ways of doing business have not altogether vanished but Italy's new corporate governance is making them much harder to apply.

FRANCE by Samer Iskandar

Change has come swiftly

The pace and scale with which large companies have begun to embrace reforms has been unexpected

The French Socialist government's planned reform to encourage wider use of stock options was always going to be tricky, with the Communist party holding the balance of power in parliament.

What was less predictable, was that the plan would face opposition from the Medef, the employers' federation, whose members stand to gain most from the changes.

The government's proposals include lowering the taxation of profits from stock options - re-named "growth bonds" - and reducing, from five years to three, the period these instruments have to be held in order to avoid paying high rates of income tax on them.

In other words, the government is proposing to undo some of the restrictions introduced by the previous right-wing government of Alain Juppé, in what was seen as a gesture to defuse social unrest.

The main sticking point is a provision in the new proposals that would force directors and managers to disclose their pay packages. The Medef claims such a legal obligation is unnecessary, because "market forces" - peer pressure - would ultimately lead to the

same result. However, the recent debate on stock options has overshadowed the substantial progress achieved in the three years since the so-called Viénot report, the most authoritative French study on corporate governance, was published.

The report was commissioned by the French employers' federation CNPF (the precursor of the Medef), and compiled by a committee of experts led by Marc Viénot, a former chairman of Société Générale, the bank that recently kicked off rationalisation in the French banking industry with its €15bn agreed bid for Paribas.

Analysts say a vast majority of large companies have adopted the recommendations.

Of the 40 making up the CAC 40 index of blue chips listed on the Paris stock market, 87 per cent had embraced Mr Viénot's recommendations by the middle of last year, compared with 37 per cent three years earlier, according to a recent survey by the Paris arm of Korn/Ferry International, the executive search consultants.

"No one could have predicted progress would be so fast and far-reaching," the

GERMANY by Tony Barber

Opening up - but old habits die hard

Companies are now acknowledging that secretiveness, which has been a feature of corporate life, is no longer acceptable

Few doubt that, when it comes to reshaping their companies and improving returns to investors, Germany's boardroom executives have taken significant strides in the past three to four years. Many companies, though wary of the so-called "Anglo-Saxon short-termism" that supposedly characterises the US and UK corporate scene, now openly pay homage to the god of shareholder value in a way that was rare in the 1980s and early 1990s.

To take one example, it has become almost routine for big companies to promise shareholders a return on equity, typically about 15 per cent, by a certain date - say, 2000 or 2001. In addition, companies are taking advantage of a change in the law last year that permits them to buy back up to 10 per cent of their shares, returning capital to investors. All in all, more than 50 companies have received permission from shareholders to buy back shares, ranging from big guns, such as the drugs company Schering and the retail group Metro, to the boiler-maker, Buderus, and the packaging machinery specialist, Krones.

There is even a trend towards more public disclosure of fundamental financial facts. In the past 12 months, Allianz and Munich Re, the insurance and reinsurance giants, have both announced the size of their hidden reserves, or unrealised gains on equity holdings and other investments.

Transparency is a significant feature of companies quoted on Frankfurt's Neuer Markt, the Nasdaq-style stock market, not yet two years old, for companies specialising in high technology products and media services. No new German company could expect these days to be listed on the stock market without being far more open about itself than it would have needed or wanted to be in the past.

However, old habits of caution and secretiveness die hard. That should come as little surprise in a country whose enviable record of prosperity over the past 50 years is attributed by many Germans to their distinctive system of corporate governance. Many *Mittelstand* companies - medium-sized, family-owned businesses that in some ways are still the backbone of the German economy - have never been enthusiastic about publishing regular accounts. But most have rarely been under pressure to do so, because they have not needed to tap the capital markets.

An increasing number of larger companies now appreciate the need for openness to shareholders. Like Deutsche Telekom, Dresdner Bank, the chemical group, Hoechst, and the two big Munich-based insurers, they see the attraction of being listed in New York or on other foreign stock exchanges and having access to a more liquid pool of shareholders.

On the other hand, it is striking how many companies remain reluctant to talk freely to fund managers and analysts. Some, though finally converted to the idea of publishing quarterly results, seem peculiarly skilled at omitting important information. An almost impenetrable maze of equity cross-holdings continues to characterise much of the corporate landscape.

However, some areas of business display more progress than others. Under recently changed accounting guidelines, companies will no longer be able to boost their earnings-per-share figures by making adjustments for certain taxes and acquisition costs. According to Merrill Lynch, the investment bank, this could mean that the companies in Frankfurt's blue-chip Dax 30 index will report earnings per share about 12 to 15 per cent lower than under the old method. The Dax, in the doldrums so far this year, could come under more downward pressure as investors react to this change. Nevertheless, it is to be welcomed because, even though underlying profit is not affected, it should become much easier for outsiders to measure the earnings potential of companies.

That may also be the eventual result of a recent decision by big groups such as Deutsche Bank, Dresdner and Munich Re to spin off their stakes in other German companies into separately managed holdings. Though designed partly just to limit tax liability, the move pleased investors who say German companies with serious international ambitions must shine a brighter light on the performance of their core activities.

Less progress is evident in attempts to reform the somewhat unwieldy two-tier board structure of German companies. The upheaval in early February at the luxury carmaker, BMW, was partly attributable to the refusal of employees' representatives on the "supervisory" board to accept as chief executive Wolfgang Reitzle, a manager backed by the company's biggest shareholders. For all his widely recognised talents, Mr Reitzle had little choice but to resign.

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in business,
things come
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UK by Jane Martinson

Head of steam driving change

Institutional investors are beginning to emulate their US counterparts in becoming increasingly active in seeking to influence the conduct of companies in which they are shareholders

Corporate governance in the UK - long criticised as a talking shop while the real work was done behind closed doors - took on a more public tone at the start of 1998.

Suddenly, institutional investors and non-executive directors - those lambasted guardians of governance - appeared to be taking their roles more seriously. Action was noticeable from the companies encouraged to enter takeover talks by shareholders to the highly publicised ousting of David Montgomery as chief executive of Mirror Group, the media company.

A small number of names were behind most of the changes. The first of these was the Focus fund set up by Hermes, which was the UK's largest pension fund, and Lens, one of the pioneers of direct activism in the US. The fund was set up last October to force through changes at underperforming companies in order to realise value.

The fund is unique in closely allying a traditional

UK institutional investor with a directly activist fund. Peter Butler, chief executive of the new fund, sees it as a development of his existing work as corporate focus director of Hermes. He has previously worked in conjunction with other corporate governance specialists to call for change at underperforming companies. The focus fund is simply a more direct way of achieving these ends.

Hermes, which largely tracks indices with assets of more than £30bn, has long been associated with taking an active stance on corporate governance. This is largely because it has a solid customer base and because of its investment style.

Two pension funds ultimately own Hermes, which means that it can avoid the potential conflicts of interest which bedevil some competitors.

Fund managers who rely on winning business from company pension funds find themselves in a difficult position when campaigning for corporate change at

those companies. As an index-tracking manager, Hermes also cannot simply sell shares as a response to underperformance.

Although unusual in the UK, the focus fund does echo other activist funds which act as a catalyst for other larger institutions. One is the UK Active Value fund, which announced a \$800m

It owns 10 per cent or more of 150 companies, according to CDA Spectrum, the data company. In 46 of these companies, it holds more than 20 per cent. Such stakes are hard to sell, particularly as many of the companies are the UK market's worst performers.

Jerzy Wielechowski, the senior fund manager

The Said study found that investors very rarely stepped in to do anything about struggling investments'

fund to target underperforming UK and continental European companies in January.

But perhaps the most notable name in the spurt of corporate activity was that of Phillips & Drew Fund Management. A bearish stance on the world's stock markets, combined with a value-based investment style, has led the group to a highly concentrated portfolio of shares in the UK.

appointed as PD's corporate governance director almost two years ago, says the group is taking a more direct approach on company performance and setting obvious benchmarks.

The plight of P&D, the UK's third largest pension fund manager, highlights the way market dynamics affect corporate governance.

A study of 240 underperforming UK companies published last month by the

Said Business School at Oxford University found that ownership in the UK was extremely concentrated, with just five shareholders controlling 33 per cent of the average company's shares.

P&D, while possibly the most extreme example, was not the only large investor with a highly concentrated portfolio. The research found that, on average, the largest shareholder controlled 15 per cent of a company. Such stakes are typically much harder to sell quickly and also lend shareholders a significant voice in the future of any given company.

There is also evidence to suggest that the UK's largest shareholders, such as P&D, have an overweight position in smaller companies, which have generally underperformed larger companies for some time now.

As these companies struggle to provide adequate investment returns, they become more difficult for institutions to sell at a profit and therefore the attractions of some kind of activism become greater.

Some analysts suggest that such relatively short-term considerations are behind the behaviour of investors. Indeed, the Said study found that investors very rarely stepped in to do anything about struggling investments.

The government has indicated that it wants to see signs of longer term change, particularly in the areas of share voting.

Fund managers have responded to this with a number of initiatives. One is the study into voting practices carried out by the National Association of Pension Funds. This group, chaired by Yve Newbold, a partner in Heidrick and Struggles, the executive recruitment company, is expected to try to explain why only about 40 per cent of pension funds register votes at annual meetings.

The study is expected to focus on physical difficulties, such as the inefficiency of the paper-based system. But it could also explain why UK investors, in contrast to their US counterparts, feel



Yve Newbold of the National Association of Pension Funds: looking at dearth of voting at annual meetings

that a vote is an ineffective way of showing approval or disapproval.

Its recommendations, due next June, will form part of a report to the Department of Trade and Industry to tie in with its wide-ranging review of company law.

This review, launched at a conference hosted by Pirc, the corporate governance agency a year ago, will not be put into legislation until the next parliament after the year 2000.

But there have been some indications that the govern-

ment may not be prepared to simply wait. The Treasury's pre-Budget report in November implicitly accused institutional investors of making UK plc less efficient.

It has also started a series of meetings designed to hear the view of institutional investors on a range of issues.

Such developments suggest that the issue of corporate governance in the UK is unlikely to become any quieter as we move into the millennium.

DIRECTORS' LIABILITY by Jim Kelly

An era of broader interests

The initial report of a high-level steering group in the UK has put the stakeholder concept at the heart of its analysis

The Victorians defined the duties of the company director and various rewrites of the Companies Act have brought their vision into the 20th century. A new model may be in place by the early years of the next millennium.

New Labour - besieged by lobby groups pressing for change in the corporate law sector - decided to deal with some urgent measures by putting fundamental reform in the hands of a high-level Company Law Review Steering Group.

Sir Stuart Hampshire, chairman, delivering a 200-page initial report, admitted that the project was an "epic undertaking". Privately, some members are yet to be convinced the government will find time to enact the final recommendations.

But there is no doubt the group's conclusions will provide the framework for reform in the 21st century. Two issues will have an impact on directors. First, to what extent will their duties be extended or altered? Second, under what system of legal liability will those duties have to be met?

Surprisingly, the report went some way to answering the first question. At the heart of the committee's analysis is a recognition that companies should have a proper inclusive relationship with stakeholders that could include employees, customers, suppliers, local residents as well as shareholders.

This raises the question of whether the UK should follow the US in introducing so-called stakeholder statutes. These could, for example, give directors a legal duty to take the interests of the broader community into account when considering plant closures.

Another suggested option would be for directors to sign up to a non-statutory code of conduct committing them to take into account the interests of all stakeholders. But the report offers other ways for the stakeholders' ideal to be achieved which may be less painful.

It outlines two types of stakeholder approach. The enlightened approach relies on progress under today's principles but with a need to change the law and broaden the information given by companies to the public.

The pluralist approach sees progress through a regime in which directors are permitted - or required - to balance shareholder interests against those of others.

It is clear from the tone of the document that, if it can, the committee will seek an enlightened approach and will seek many ways to bring it about.

In government there is

ness that, despite the fact that company law already lays broad duties on directors to meet the needs of future investors and employees, the "inclusive" approach is not a model.

The report seeks consultation based around a series of questions which include:

- Should the present law requiring directors to have regard to the interests of shareholders be clarified?
- If so, should that be statutory or not?

- As an alternative, should the duties of the director be more widely prescribed?
- Should such duties be enforceable?

- Should directors be given the power - or even obliged - to have a wider regard for social and ethical objectives?
- Should directors' duties be changed from those current in a takeover or merger?
- There has been criticism that the present rules restrict duties to serving current shareholders.
- Should distinctions be made between different types of company?

The law review is also expected to go on to look at the issues of directors' liability.

The government has signalled that it hopes the review will examine spreading the legal burden of damages when a business fails as part of its radical overhaul of company law. Auditors have been campaigning for a decade to win fundamental liability reform.

At one point, auditors hoped the Department of Trade and Industry would sanction reform of the Companies Act to remove the clause that prohibits them from limiting their legal liability by contract in the event of corporate failure.

Instead, a system of proportionality will be examined under which damages could be shared between directors, advisers and auditors in line with their degree of responsibility. Proportional liability is increasingly being accepted in the open market.

If the review finally recommends such action it would mark an end of the principle of joint and several liability under which all parties responsible for the damages can be liable for the whole amount claimed. As a result of such reforms, shareholders would lose out if negligent directors, or others, could not pay damages. The auditor would no longer provide a deep pocket in such cases. The move could lead to demands for compulsory insurance for all directors.

Such a system would support the principle outlined by Margaret Beckett, former trade and industry secretary, of seeking the wider involvement of shareholders in the quality of directors appointed to the board.

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The World's Most Admired Companies, FORTUNE magazine, 26th October 1998.

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CORPORATE GOVERNANCE ADVISORY BOARD by Richard Donkin

Powerful support for international guidelines

A group of top business leaders is aiming to make its influence felt over basic principles for corporate behaviour

Egon Zehnder International, the headhunting firm, could have been excused a moment of self congratulation yesterday after arranging what must have been one of the most high powered meetings of the heads of some of the largest multinational corporations and institutional investor groups.

The meetings at its London offices constituted the second stage in Egon Zehnder's plan to create an influential board of business leaders committed to effective corporate governance on an international scale.

The first stage was initiated a year ago when 20 international company heads from 16 countries were brought together in London for the inaugural meeting of the Global Corporate Governance Advisory Board.

The strength and international breadth of the board is implicit in its membership, including Marc Viénot, honorary chairman of Société Générale, Jürgen Schrempf, chairman of the board of management at DaimlerChrysler, Yoh Kurosawa, chairman of the Industrial Bank of Japan, Percy Barnevik, chairman of Investor AB, Cor Boonstra, president and chairman of Royal Philips Electronics and Ratan Tata, chairman of Tata Sons.

Supporting the board as its counsel is Ira Millstein, senior partner of Weil, Gotshal & Manges, and a respected authority on corporate governance.

If the board itself proved something of a coup for the headhunter, the second step in its overall mission to help transform nation-based corporate governance guidelines into international guidelines, has been to create the Egon Zehnder International Institutional Investors Advisory Group.

The second group comprises six of the most active representatives or advisers among the institutional investor community, including TIAA-CREF, the largest US pension fund, Calpers, the world's largest public pension fund, Lens, a US investment group, and from the UK Hermes Pensions Management and PIRC (Pensions Investment Research Consultants). The idea is that collaboration between the groups will help to focus concerns of investors among business leaders.

"We wanted to really bring people together on both sides of the table. We thought it was important to have shareholder representation when examining these fundamental issues," says Kenneth Taylor, the Chicago-based Egon Zehnder partner who suggested the group and brought it together. He stressed, however, that the board had no plans to draw up a code for adoption.

"There is a very well acknowledged relationship between good governance and good performance. We accept that one size will not fit all in corporate governance but I think there is a convergence of some of the basic principles of company organisation."

Investor groups seemed equally enthusiastic about the meetings. "It's clearly an interesting group to get together and I look forward to the opportunity to discuss these issues on an international basis with people who have experience in so many different markets," says Alastair Ross Goobey, chief executive of Hermes Pensions Management.

"Investors in both the US and the UK are going to have to get more involved in companies, rather than just selling their shares when they are unhappy."

Companies are also beginning to accept more active shareholders according to Mr Barnevik, who welcomed their increasing involvement in nominating directors.

"I think we have come a long way in Europe now to recognise the rights of shareholders. When I came into the German/Swiss corporate environment in the 1980s they looked at shareholders

as if they were bond owners - you had to give them some money occasionally as dividend but you didn't see them as an owner," says Mr Barnevik.

The first meeting of the advisory board in 1998 identified common basic principles of corporate governance for all boards. These included:

- the board must be responsible to shareholders;
- the board must be independent of management;
- the roles of chairman and chief executive should be distinct positions;
- companies should meet certain core international standards to qualify for a stock exchange listing.

In addition to these fundamental principles, the group also identified a number of key issues and questions

surrounding corporate governance, including:

- education of directors on the nature and scope of their job;
- how does a board appraise its performance?
- should individual directors have their performance reviewed before reappointment?
- how should boards interact with investors and their advisers?
- should the chairman be a member of the management team?
- what should a global board look like?
- what role should shareholders play in company management and corporate governance?
- how can the board best contribute to good economic performance?

Mr Millstein says he hopes

the boards will provide a channel for investor and corporate concerns over corporate governance. The debate is expected to broaden later this year when the OECD publishes international core principles establishing certain shareholder rights on the running of company boards.

"At Egon Zehnder we aim to get into a lot of the qualitative questions over corporate governance such as the social applications," says Mr Millstein. "Are institutions going to insist on maximising shareholder value to the exclusion of everything else? Another area is corporate ethics: what would shareholders like us to do? These are difficult issues and I would like to see whether or not they could lead to guidelines."

INVESTOR RELATIONS by Emiko Terazono

A pressure to explain

Companies are finding that they must be skilled communicators in an era of powerful institutional investors

It used to be accepted wisdom that as long as a business was run properly, then the share price would follow. Thus, spending time with investors and the media explaining strategy was seen as a cumbersome exercise.

However, in an environment where investors are more willing to use their power and corporate governance is given increasing emphasis, corporate presentation and communications skills are becoming more important than ever before.

If handled poorly, bad corporate results or a crisis can have substantial short-term, and in some cases long-term, effects. Links with institutional investors and the media are now of real concern for most companies, and in an environment where investors are seeking explanations for profits and corporate strategy, senior executives are spending more time dealing with the investment community.

As a consequence, the number of specialist investor relations consultancies which advise on presenta-

tion and communication strategy has grown rapidly. The period of growth for the investor relations industry in the UK was the 10 years since 1988. Big Bang in 1987 (which transformed the London financial and investment community) pushed corporate governance on to the UK investment community's agenda while the 1991 recession also provided impetus for change in investor relations.

According to a recent survey conducted by Investor Relations magazine, more than 60 per cent of UK companies polled used external investor relations agencies.

Consultants try to advise on how the market would react to management and investment decisions, and help corporate executives understand the market better. There are certain "fads" in the market, such as return on capital over the cost of capital, which companies need to realise and address. "It's difficult to keep in touch with sentiment, especially when the stock market is so fashion-

led," says an investment relations adviser.

And while dealing with individual crises is crucial, the key to good communication is consistency, say analysts and investor relations advisers. Many companies are willing communicators when times are good, but tend to clam up once the tide turns against them.

Good communications involves trust and investors will be willing to give companies the benefit of the doubt in a crisis if they trust the management, say advisers. "If companies communicate consistently and help the market's understanding by better disclosure, they would have a less volatile share price and hence lower the cost of capital," says one executive of an investor relations consultancy.

BP Amoco is often cited as an investor relations success story. Although until 1992 its poor communication skills bred hostility among investors, it has been a different story under the helm of Sir John Browne, and analysts and investors regard the company as one of the top communicators. "They are doing an excellent job. You'll always get information and some sort of story from

them," says John Toalster, oil analyst at SG Securities.

On the other hand, Shell has a reputation within the investment community of being a company with poor communication skills. "This has led to more uncertainty over the company," says an investor relations adviser. "Although it is trying to change because of the recent appalling performance, it has long been arrogant," says an analyst.

Meanwhile, one of the new trends in the investor relations industry is the rapid growth of investor relations activity in continental Europe. The advent of the euro and prospects of a growing pan-European capital market has given rise to a focus on market driven capitalism and with it, shareholder values.

According to the IR magazine survey, of the European corporations polled, 34 per cent were planning to increase investor relations staff compared to a global average of 19 per cent. However, it has taken the more than 10 years for awareness to reach current levels.

Another recent trend with which UK companies will have to grapple is the consol-

AS A GENERAL RULE, HAVING TO USE TEAR GAS AT THE AGM INDICATES A NEED TO WORK ON INVESTOR RELATIONS



idation of the fund management industry. This will mean that more shares will be concentrated in the hands of large institutional investors, who will have a greater say in management decisions.

"The challenge for companies is how to communicate with these global fund management houses and how to meet the demands of the big players," says Bob Cowell of Makinson Cowell, an investor relations consultancy.

The implications of this trend for small companies may be more severe. A recent report sponsored by the Department of Trade and Industry warned that many of the UK's smaller quoted companies could find it

increasingly difficult to attract investors due to consolidation in the fund management industry, the rise of tracker funds and the emergence of pan-European capital markets.

This could in turn have negative effects on entrepreneurs running family businesses, who are hoping to bring their companies to the market, either by themselves or by venture capitalists looking for an exit.

"Small businesses need to establish and maintain good links with the City, otherwise they could well find their options for future funding restricted," says Mike Stevens, senior executive of sales and business development for Natwest Bank.

DAVOS FORUM by Tony Jackson

An attractive setting for a schmooze

This cunningly constructed event offers those fortunate enough to attend an astonishing variety of sessions

For those who do not attend it, the annual World Economic Forum at Davos is a slightly odd affair. From around the world, the great and good descend on this small Swiss ski resort: heads of state, chief executives, scientists and artists. What do they get up to? And should you join them?

The chance is not necessarily on offer. Only so many companies are admitted, and only so many representatives from each.

Suppose, though, you have the option. Whether you find it worth your time - six days - depends on your interests, industry sector and your capacity for schmoozing.

In some respects, Davos is unlike the average industry conference. Too often, these consist of a short break at an alluring location where official meetings are sparsely attended, and delegates are either playing golf or stitching up deals in hotel rooms, away from the media or the eyes of anti-trust authorities.

Davos is more cunningly constructed. Those who wish to ski will do so. Otherwise, the meetings have what might be called critical mass. On a given day, there will be up to 80 sessions, stretching from early morning, over lunch and dinner to midnight.

The practical value of some sessions, from an executive's point of view, might seem debatable. Take a sample from this year's offering: a couple of months ago.

Spiritual Anchors for the New Millennium - speakers included the president of the European Buddhist Union and an Oxford professor of divinity. *Is Global Justice Possible?*, with the British rock musician Brian Eno and Mary Robinson, the UN commissioner for human rights. *Where Did I Leave My Keys? The Mysteries of Memory*, with a professor of neurology from the University of California.

There are two ways to look at this. On the one hand, many of the other sessions are severely practical. This year's included a panel discussion on mega-mergers by the heads of Deutsche Bank, BP Amoco and Novartis.

Another was on the outlook for the US economy, from Larry Summers, Robert Rubin's deputy at the US

Treasury, and luminaries from Wall Street and academia such as Abby Cohen from Goldman Sachs and Alan Blinder from Princeton.

But do executives find the softer kind of sessions without value? I posed that question to the CEO of a large US engineering company.

In fact, he confided, he regarded Davos as a sabbatical. He avoided the sessions on business strategy and so forth: his rivals were going to them. He preferred those on science, the arts and society. With luck, this would give him a different insight: an edge over the others.

It would not do to be too starchy-eyed about Davos. Much depends on the business sector you are in. In information technology, particularly, much care has been devoted in recent years to building up a worldwide image.

Thus, such luminaries as Bill Gates of Microsoft, Michael Dell of Dell Computer and Lew Platt of Hewlett Packard are regular visitors.

Suppose, on the other hand, you are a director of a paper company or a steel maker. There will be few sessions devoted to your more humdrum specialisations. You will hear the finance directors from the Group of Seven industrialised nations give their views on the world economy. Heads of state such as Nelson Mandela of South Africa, Lee Kuan Yew of Singapore and Aleksander Kwasniewski of Poland will lecture you on the state of the world.

But however fascinating this may seem on first hearing, these are powerful people, whose words can sway markets and change events. They are not given to unguarded remarks.

But that is to leave out the schmoozing part. Davos takes part in one large, complex and bewildering building. As you walk through its corridors, you will bump into unexpected people: the head of Volkswagen or General Electric here, Al Gore or Newt Gingrich there.

On balance, it is worth a try. The town of Davos is hard to get to, and the hotels are unsatisfactory. But, even if you do not ski, one thing is certain: the Swiss Alps, at the end of January under heavy snow, are remarkably nice to look at.

TECHNOLOGY by Richard Susskind

Professions are likely to fly by wire

The internet offers the opportunity for radical change in the delivery of legal and other services

In the wired world what is the role for professional advisers such as lawyers, accountants and consultants? In an online society, dominated by e-commerce, tele-working and home shopping, in which everyone has access to the internet through the next generation of telecommunications, will the professions be immune from change?

One likely development is that professional guidance and expertise will be accessible on the internet, packaged in a way that is readily available and easily digestible for business and commerce. The guidance offered will be less focused than that delivered nowadays by traditional, one-to-one consultative, advisory service. But IT-based professional service will be vastly more useful than today's main alternative to customised advice: the booklets, texts and other sources found in libraries and book stores.

The guidance made available on the internet (more specifically, on the world wide web) will more closely resemble the kind of practi-

cal pointers that a professional might currently pass along to a friend or a family member (but not to a client): a short list of key points and reminders; maybe a few pieces of standard text for inclusion in a letter or report; and perhaps an indication of some relevant, common concerns.

From providing guidance for a sole trader who is bemused by mountains of possibly relevant regulation to briefing a chief executive on the legal, financial and management basics of some deal, the help on offer will tend to be punchy, practical, immediately usable and free of jargon.

Such distillation may be no substitute for the formal advice of specialists provided in the time-honoured, consultative fashion, but they should be an immeasurable improvement over having no access to professional help whatsoever, which is the regrettable state in which so many now find themselves.

IT-based guidance (we may call this professional e-guidance) will be less forbidding to obtain, more affordable,

and brought to bear far more frequently than professional advice of today. No longer will professional insight be meted out occasionally on the basis of billing by the hour. Instead, it will become a low-cost commodity, distributed in high volumes across the internet.

Latent markets for professional guidance will be liberated by IT. These are the vast markets populated by those many millions who require specialist help today but are deterred from obtaining it because it is too costly, complex or inconvenient. And these latent markets are as needy in large corporations as they are in society generally - citizens and business concerns everywhere face substantial challenges and risks which they have no realistic hope of recognising and controlling without external help.

Today's source of help is the professional adviser. Tomorrow's will be professional e-guidance.

This is not science fiction. In fact, it is already happening, as is amply demonstrated by Clifford Chance's

NextLaw system which guides users on compliance with data protection legislation across the world.

But this kind of e-guidance will not replace all service of today. Complex, high value and socially significant work will continue to require the judgment, experience and knowledge of skilled practitioners operating in the traditional, one-to-one, consultative manner. However, this conventional service (which today is all too often inefficiently prepared and delivered) will become streamlined and optimised through IT, using ever more powerful communications and information systems.

Traditional professional service will therefore continue to play a key role in society but it will come to be provided more quickly, at lower cost, with greater consistency of approach and to a higher quality. IT will play its part - but in automating rather than innovating.

That said, not all of today's work is genuinely so sophisticated. Clients have for long demanded the cost of apparently routine and

repetitive professional work ("You must have done hundreds of these before"), and many have clamoured for precisely the injection of procedure that IT can and will bring. This will happen in countless areas of professional work, especially where the work loads are large, the problem types are recurrent and the tasks involved are highly procedural in nature.

Here, then, is what so many professionals understandably dread: the "disintermediation" of conventional advisers, whether internally when firms recognise they need less staff for the delivery of service that can be systematised or, worse still, when entire tasks are turned into pre-packaged products available on the world wide web without the direct involvement of any professional or firm.

Worrying for those advisers who jealously guard the boundaries of their professions is that professional e-guidance will evolve quite rapidly to become multi-disciplinary systems and services. For non-professionals,

systems which specialise only in particular bodies of professional knowledge (just accounting, or just law, for example) will come to be seen as rather peculiar. Business users will prefer the e-guidance to be orientated towards the realities and the flow of the ventures with which they are involved rather than with the underpinning legal disciplines.

Thus, professional e-guidance systems will be multi-disciplinary systems, covering areas such as accounting, finance, and business and management consulting.

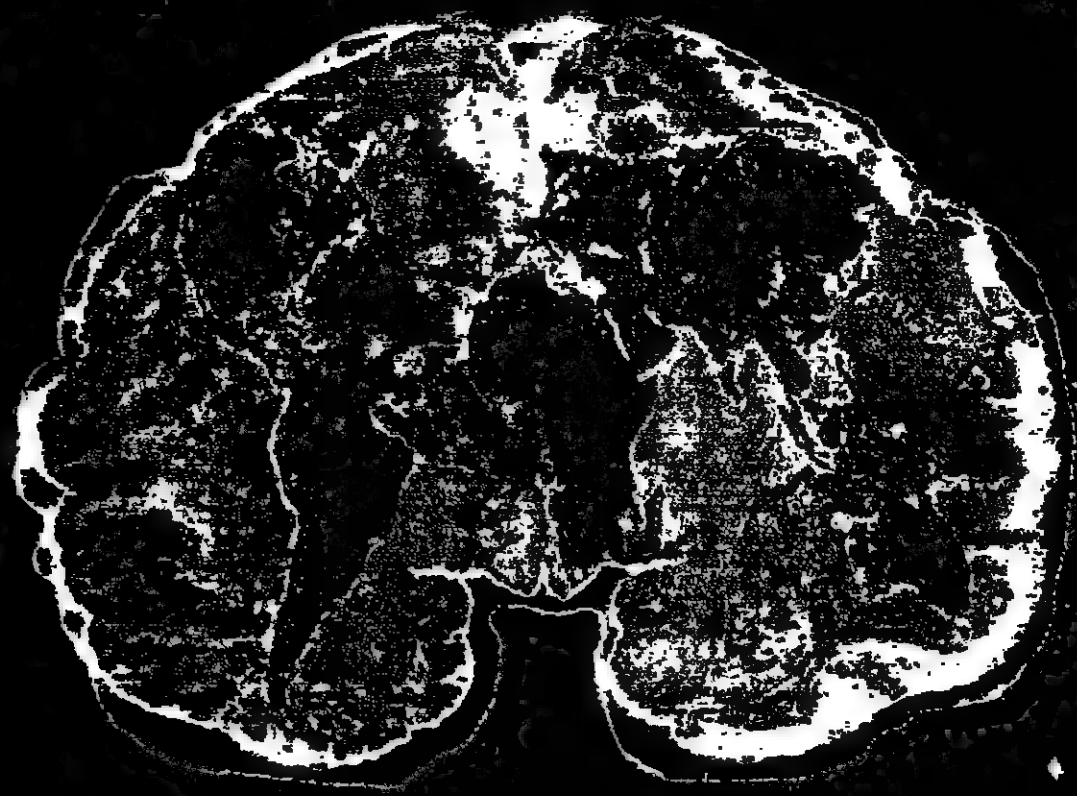
While multi-disciplinary practices may seem a distant prospect, multi-disciplinary professional e-guidance is almost upon us. Perhaps the advent of these systems, if easy to use and sensibly priced, will bring an end to the common perception of all professions being, as George Bernard Shaw so memorably put it, "conspiracies against the laity".

Richard Susskind is the author of "The Future of Law" (OUP paperback 1998) and can be contacted on richardsusskind@msn.com.

24 Dec 1999

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MANAGEMENT SUCCESSION by Peter Marsh

The reins in the right hands

Recognising that outside managers need to be brought in is one of the most difficult challenges facing family firms

When Hermann Kronseder started a tiny machinery company in war-ravaged Germany in 1951, he had no idea it would grow so big. Krones has expanded steadily in a range of products, to gain sales last year of DM1.8bn, most of this in bottling equipment for drinks factories, a field in which it is the world's biggest player.

However, the company - which is listed on the Frankfurt stock exchange although with a majority owned by Mr Kronseder's family - lurched into financial difficulties four years ago. It was forced to write off DM100m in losses, much of this related to mismanagement of its operations in South America.

Much angst was displayed within the company about what to do. In the event, Mr Kronseder, who is now 74, stood down as chairman, with his place being taken by his son, Volker, an engineer already working at Krones.

To bolster the senior management, the company also recruited as deputy chairman an executive from outside the industry - Hans-Jürgen Thaus, formerly chairman of Schneider Rundfunkwerke, a German technology-based multimedia company specialising in laser display technology.

The change at the top seems to have worked, with profits growing and stock-market analysts being more positive about the company than a few years ago. Volker Kronseder says: "We feel that we made a smooth transition [between the different generations] and at the same

time improved the management structure," he says.

Such stories are not uncommon among many family-run businesses which have to go through the sometimes difficult procedure of finding someone new to run the company after the founder decides to retire. They are particularly frequent in the thousands of medium-sized companies in Germany, especially in engineering related industries, which have been an important driving force for the economy since the 1950s.

According to Hermann Simon, a Bonn-based management consultant who is an authority on the German Mittelstand (medium sized businesses), the problem of ensuring a pain-free change-over in companies such as this can often be the biggest issue deciding whether they will succeed or fail.

In Mr Simon's view, businesses in this position will sometimes do better to find a new manager from outside the immediate family who is well qualified to run the business in the future, rather than to hand over in a routine way to a son or daughter.

While Krones has opted for a compromise, splitting the key management powers between an insider and outsider, INA, a large family-owned maker of bearings and automotive parts and based near Nuremberg, has recently opted for a complete newcomer to take the company into the 21st century.

INA, which was founded in 1946 by Wilhelm and Georg Schaeffler, two brothers, was run by the two of them, and then, when Wilhelm died,

by Georg on his own until his death in 1996.

It was believed by many in the company that Georg's son, also called Georg, would take over the running of the company following an interregnum during which Lorenz Ralith, a long-time INA employee, took on the chief executive's job.

However, in the past few months, Georg has decided instead to pursue a legal career, so forcing the company to go outside the family in its choice of its most senior executive. The job was filled in November by Jürgen Geissinger, a 39-year-old engineer who had previously worked at ITT Industries, the US conglomerate, and Heidelberger Druckmaschinen, a well-regarded German company which is the world's biggest maker of printing systems.

Sometimes the family in charge of the company lets go of the reins to an outsider as a matter of long-term strategy.

That was the case with Putzmeister, the world's biggest maker of machines for pumping concrete on building sites. This was started in 1859 by Karl Schlect, who ran the company until recently, when he stepped down as chief executive to hand over to a non-family member, Hartmut Beckert, a long-serving Putzmeister employee.

At the same time, Mr Schlect placed the shares of the company in a charitable foundation, with a view to selling roughly a quarter of the stake to outside investors in a public offering around 2001. "For the first time we have a family-free



INA, German family-owned bearings maker, took on outsider, Jürgen Geissinger, a former ITT executive, as chief executive

management board," says Mr Schlect, who is 66 and continues at the company as chairman of its supervisory board, a non-executive function.

He believes the company has a better chance of making the right management decisions if it is run by people who have earned the right to be at the top, rather than being there because they happen to be members of his family. "There must be no special privileges [to family members]," he says. Such a view is probably a minority one among the many ageing entrepreneurs in charge of German businesses, most of whom instinctively hope their sons (or very occasionally daughters) will carry on their work. At prominent, a Heidelberg-based pump maker, Viktor Dulger, the founder and owner, is still effectively running the company at the age of 63.

However, he has laid the

foundation for a smooth handover by making his two sons - Reiner and Andreas - joint managing directors with a view to taking over when he decides to step down completely from the DM280m-a-year turnover business.

At Trumpf, another privately owned German machinery business, which is the world's biggest maker of laser cutting systems, Berthold Leibinger, the chief executive and majority owner, has prepared a game plan for the future which contains only the most minor variation on Mr Dulger's strategy.

Although in his late 60s, Mr Leibinger has dropped few hints about when he might call it a day. However, it is widely assumed that when he decides to quit he will pass over the top job to Matthias Kamüller, Trumpf's director in charge of production - who happens to be his son-in-law.



CASE STUDY PSI GLOBAL

A question over the longer term

For a family company selling out to a larger rival may be the realistic option

"It can be quite fraught at times," says Sue Hunter of the challenges of running a company of which she is managing director and where her four sons are all in key positions.

PSI Global, which makes specialist air filters for compressors and pumps, was set up by Mrs Hunter and her former husband, George Hunter, in Durham, North East England, in 1978. Later, the two divorced - leaving Mrs Hunter to run the £3m a year turnover business, with her four sons all joining the company in recent years.

Mrs Hunter and her sons - who are aged between 25 and 33 - between them own roughly two-thirds of the company, with the rest owned by an outside shareholder in the form of the Foreign & Colonial Investment Group, which took its stake six years ago.

Now, Mrs Hunter - whose company employs 80 people and exports nearly 80 per cent of production - is beginning to ponder the question of management succession, and the company's long term future. "I almost certainly will not be wanting to stay in this job for more than the next few years," says Mrs Hunter - whose husband had previously set up a bigger filter maker called Dornick Hunter in 1983 which is also based in the North East and has gone on to become a publicly quoted business.

According to Mrs Hunter, one of her four sons would

"probably" take over the top job in the group were she to stand down. The most likely person would be one of the three sons who are executive directors of the company - Jon, who is the oldest and is in charge of manufacturing, Alex, who is technical director, and Daniel in charge of sales. The youngest son, David, is the production engineer at the group.

The three director sons plus Mrs Hunter together comprise four out of the company's five executive directors - with the group having one more non-executive. "The family representation sometimes seems a bit top heavy for a company of our size," said Mrs Hunter. "Sometimes discussions between us get

a bit hairy but most of the time we get on well. I try not to boss them around too much."

However, a still bigger issue than the management succession crops up over the question of where the company is going long term. Sales have recently stuck at around the £3m mark, partly due to problems over exporting given the high pound, and the company has maintained a solid profits record, partly by devoting much more attention to training employees and improving their skills than is normal for a relatively small company.

However, Mrs Hunter thinks that the future for PSI as a family company may not be that long lasting. Given the tendency for companies such as hers around the world to form part of bigger, more international groups, she thinks it likely before too long PSI may follow the route of other similar businesses and be taken over by a larger enterprise.

Peter Marsh



Sue Hunter and (l to r) sons Alex, David and Jon: the future as a family company uncertain North News & Pictures



CASE STUDY NEW YORK INVESTMENT FUND

Private networks with the public good at heart

Capitalism is taking on a new role in masterminding initiatives to combat urban blight in some of America's worst affected cities

In the 1980s, Henry Kravis came to stand for a new spirit in American capitalism: the raw financial power wielded by his leveraged buy-out firm, Kohlberg Kravis Roberts, posed a direct challenge to deeply entrenched interests in American boardrooms.

The power of money also lies behind his more recent attempt to galvanise private sector community initiatives in his home city. Kravis's New York Investment Fund is one of a new breed of private sector funds that have been springing up in US cities, charged with stimulating economic growth and revival of down-at-heel neighbourhoods, rather than making a profit.

This time, though, the leverage has come not from amassing mountains of debt, but from using the power of the Kravis personal network to draw other members of New York's financial and business elite into his community initiatives.

Business leaders in other US cities may be doing things somewhat differently, but similar funds have been springing up elsewhere, too. Together, they represent a distinct shift in the way that

American corporate executives and financiers in some of the country's bigger cities apply their efforts to support their home towns.

One recent sign of this shift: a meeting in New York that drew delegations of business leaders from Cincinnati, Cleveland, Detroit and Pittsburgh - all cities that have suffered severe cases of urban blight. The first of its kind, the meeting represented an attempt to spread ideas about how to get the maximum impact from the limited cash, and time, available.

Community involvement may, at heart, be a local affair, but it no longer pays to think small, says Kathryn Wilda, who runs the New York fund.

"The aim is not just to fix up a low-income community, but to bring it into the mainstream of the global economy," she says. "You can't do that with mom-and-pop stores or one-off neighbourhood businesses - you have to find ways to create connections."

Al Singer, who oversees the TRW Foundation, a non-profit fund set up by the Cleveland-based car-parts

maker, says "In Europe, there's far more reliance on government" to provide solutions to local social problems. "Here, government is just one of the many entities" that get involved.

Downtown Cleveland is proof of this. The Midwestern city has come a long way in the past 15 years, since a small group of business executives decided that city government was not up to the task of pulling Cleveland out of its downward spiral. That led to a series of investment funds to back investments in low-income housing and a series of landmark developments, including new sports facilities, a hotel and a marina.

Real estate has been at the heart of most private-sector community investment projects across the US for the past 20 years, says Ms Wilda. Now, the aim has switched to creating jobs and a sustainable economic base for inner-city areas that have missed out on the US economic expansion.

In New York, that has meant mobilising Henry Kravis's personal network. Money, in the shape of the \$79m investment fund, may oil the wheels of this effort, but it is not the main force at work. Rather, the exercise relies on a classic New York blend: the desire to network with powerful people, mixed with the urge to do good works while developing social prestige and useful business contacts.

Most of these projects represent efforts to create a broad impact: a home healthcare agency in the depressed South Bronx that will train 1,000 workers, for instance, or an attempt to create a consortium to represent Brooklyn's food industry. "We are increasingly looking at projects where we can provide a business model that can go to [large] scale," says Ms Wilda. "The micro-enterprise only goes so far."

Richard Waters

SOCIAL RESPONSIBILITY by Alan Pike

A community of interests

Pressure is growing for companies in Europe and elsewhere to think in terms of social partnership

In the UK, where the core language of industrial relations tends to emphasise confrontation rather than collaboration, employers and trade unions seldom refer to each other as social partners.

But they unashamedly adopted the European Commission's favoured description for the two sides of industry when, last month, new pension rights and other changes in conditions for local government employees were announced.

Local government unions and employers' organisations are putting great effort into building social partnership. Their motivation to work together has been strengthened by mounting political and financial pressures on public authorities to consider contracting out services to the private sector.

For the unions, there are obvious staff interests to protect when work is outsourced, but equally big issues face private contractors. By running services and forming joint venture companies with local authorities, the private sector is drawn into debates about public policy priorities and accepts overtly social responsibilities.

Partnerships with public authorities and unions make sense when working in such a politically sensitive environment. Even the most conventionally-minded director or shareholder would have little problem with managers spending hours in meetings with councillors and community representatives when justified by the bottom line.

But managers from other businesses, with no involvement in the public services market, also spend hours in meetings with councillors and community representatives - and spend substantial amounts of their companies' money on community causes.

Although this is less easy to explain to hardened sceptics among directors and shareholders, many large companies have come to regard community involvement as a necessary, mainstream business activity.

The UK leads Europe in this broader form of business social responsibility. Just as the continental term social partners has been slow to enter UK usage, business social responsibility - in common use in the UK and US to describe the range of economic, educational,



Tesco director, Tim Mason, joins in the fun during a visit organised by the charity, Business in the Community, to Bromley Hall School for children with special needs, in Hackney, London

environmental, artistic and other community activities to which companies devote money and non-financial resources - is an expression with no precise equivalent in French, German or Italian.

But interest in the concept is growing in continental European companies, and the UK is beginning to export its expertise.

At its most simple, the case for businesses taking an interest in the community is that no company exists outside it. The community is where customers are, where employees live, and where reputations are enhanced or damaged.

"Poor communities make poor markets" is a favourite slogan of advocates of corporate community involvement. Economically deprived communities lack spending power. Communities where crime rates are high expose businesses premises to increased risk of theft and vandalism.

Low educational attainment in the local community creates a bad labour market. And, in the global community, gaining a reputation for environmental insensitivity or dubious employment practices can damage a multinational's image throughout the world.

This spring will see the completion of "A New Vision for Business", a committee of inquiry into ways of pro-

moting corporate social responsibility and positive business values while enhancing competitiveness.

Led by eight companies - British Telecommunications, Tesco, Unipart, National Westminster, Body Shop, Diageo, BP Amoco and Wessex Water - the inquiry has begun sharing its experience with social implications including consumer and employee relations, the environment and ethics, as well as the specific subject of community involvement. When the inquiry's findings are published shortly, the most important target audience will be policy makers in the UK and elsewhere in Europe.

At a time when governments are keen to see the private sector engaging with social issues, the inquiry will try to pinpoint those public policies that are most likely to encourage wealth creators to respond.

Both in their home markets and overseas, European companies have built up an impressive catalogue of community achievements - from KPMG, the accountancy group, mentoring headteachers to help them gain the management expertise required to run state schools, to BMW, the motor group, using its South African dealership to promote a scheme encouraging entrepreneurship and economic

employee volunteering, in common with other forms of business social responsibility, certainly vary across Europe," he says. "In the Scandinavian countries, for instance, there is still a strong sense that social problems are government's job. But, all over Europe, there is an increasing recognition that there are solid business reasons for private sector involvement."

Along with social partners and business social responsibility, another set of "social" terms that were once the exclusive property of academics and policy makers has entered the usage of business leaders. These are social inclusion, social exclusion and social cohesion.

The European Business Network for Social Cohesion, a business-led organisation supported by leading companies and business associations, has been formed to help the private sector play its part in preventing social exclusion and contribute to a "sustainable economy and a more just society".

Social exclusion? A more just society? This is certainly the sort of language likely to have those sceptical directors and shareholders snorting that profit-driven companies should stop behaving as though they were charities or political parties. But, reply experts of the "poor communities make poor markets" thesis, it is precisely because companies are profit-driven that they cannot ignore social issues.

David Grayson, a director of BTIC and one of the UK's most respected voices on business social responsibility, has just completed a series of briefing sessions for board members of the new English regional development agencies that become operational next month. He used the sessions to drive home a message which, he argues, is equally applicable to all bodies throughout Europe that are responsible for regional economic development.

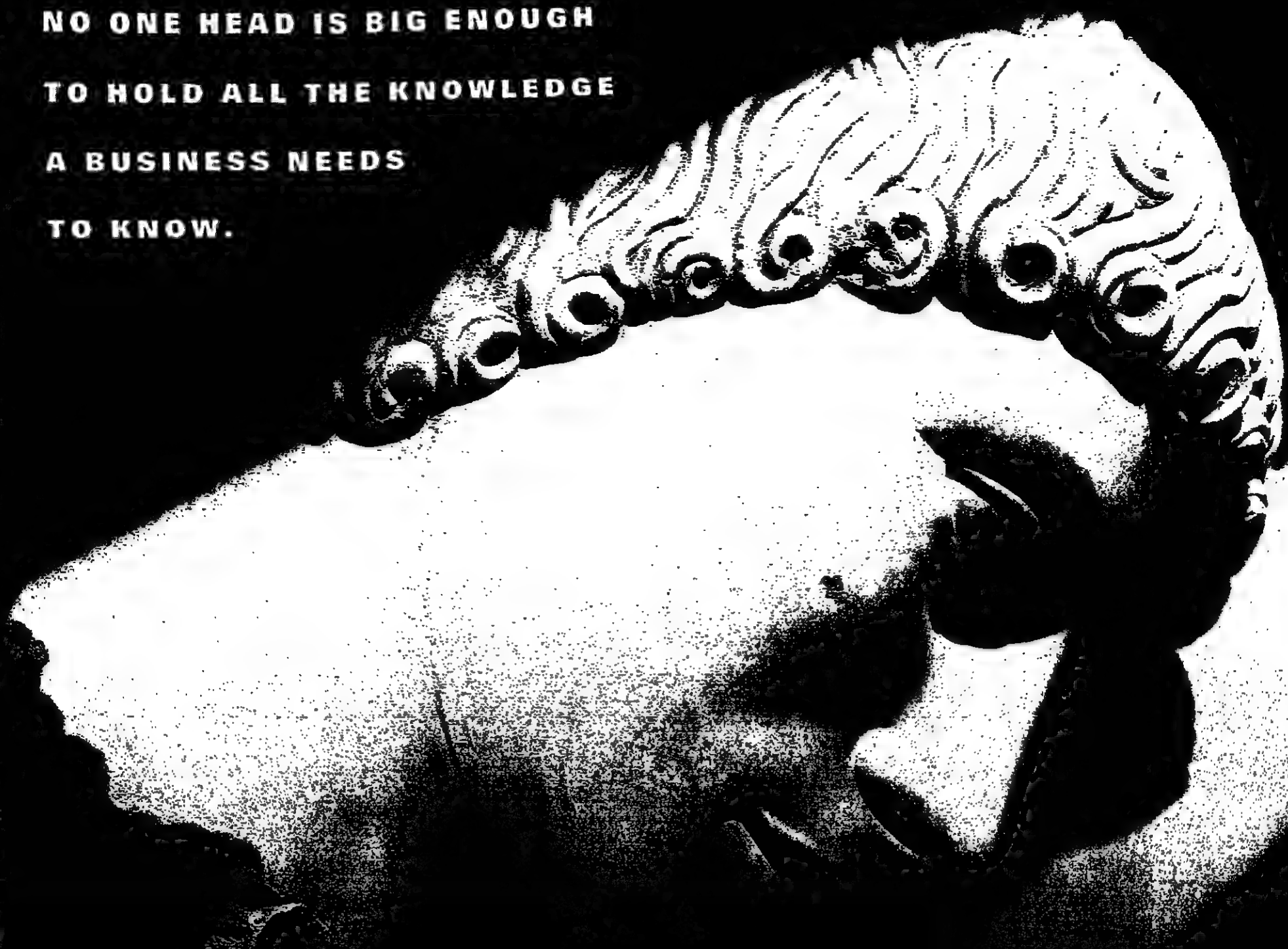
"In the new century, the most competitive regions will be those that are the most cohesive. The social issues have to be addressed as part of overall competitiveness strategy, not added on as an afterthought. Social cohesion is becoming a key component of economic success and that is something the private sector, as much as governments, must take into account."



Henry Kravis (left) with actor Michael Douglas at a fund raising event, has turned to raising funds for community projects AP

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MANAGING IN A DOWNTURN by Tony Jackson

The kindest cut – a shared attack on costs

Overheads are an obvious target when recession starts to bite, but they must be carefully targeted if lasting damage is not to result

Since the debut of FT Director four months ago, recession has continued to roll around the world, involving more and more economies on its way. In that first issue, we looked at strategic ways of making the most of a recession (FT Director: "Upside of a downturn", November 20 1998).

But there is a more immediate aspect to managing in a downturn. Costs must be cut, perhaps sharply. How can that be done most intelligently, with least damage to the organisation?

The first point is perhaps less obvious than it looks. It is necessary to understand where your costs are. Do they come in raw materials, or rental, or wages? And why are they being incurred in the first place?

David Pettifer, a consultant with PriceWaterhouseCoopers, puts it this way. Suppose you are a utility, and one of the costs you identify is the settling of disputes and complaints over customers' bills.

One way to cut those costs would be to reduce the number of people handling queries. But before doing that, it plainly makes sense to cut down the number of queries in the first place.

As Mr Pettifer says, the trick is to view cost-cutting in a strategic rather than knee-jerk way. "If you ask General Motors," he says, "they will tell you that much of their cost-cutting in the 1970s made them a smaller company with the same problems."

All organisations, of course, aim to keep their costs low all the time. But the reality is that costs creep up when times are good.

Some of this is a matter of inattention. But some of the extra costs consist of the kind of developmental, entrepreneurial activities on which the company's future

might ultimately depend. It may be necessary to cut the second kind, but only after the first kind have been taken care of.

Again, the range of products and services offered by your company tends to proliferate in an upturn. In a downturn, it is essential to work out which are making the real money, and cut out the long tail of those which are not.

It may be, of course, that the downturn proves so severe – as in parts of Asia – that the issue becomes one of survival. In that case, Mr Pettifer says, there are two big mistakes to avoid.

First, he says, companies are often unclear about which of their processes are essential. How important is

it to protect your research and development, your brands, your product development?

Second, they fail to understand how various cost measures work over time. Process re-engineering, for example, is unlikely to have much effect within 12 months. When it comes to emergency cost-cutting, the trick is to pick the right tools.

The number of tools is rising all the time. Take, for instance, office space. The UK company Regus, which provides temporary offices on a three-month lease, claims to be opening a new office centre every three days, in 40 countries.

As the company says in its sales pitch, this could allow

you to convert a large fixed asset into a short-term one. For instance, if a conventional office lease expires in a recession, renting might give you a breathing space to determine whether the market in question is going to recover.

Or take a slightly more exotic outfit, the US-based Active International. This claims to take excess inventory or unwanted assets off your hands at full book value, even if their market value has collapsed.

As described by Tim Glover, the company's European managing director, this involves a complex form of barter. The company hunts out and collects redundant assets, from excess airline seats and TV air time to



printing and packaging.

Suppose you have excess inventory of baked beans. The company will give you part cash, part trade credits which can be exchanged for those other goods or services. By juggling its various assets, the company aims to find a home for all of them

at what is, in effect, full price. The company's scope is somewhat limited. Around 80 per cent of its \$600m revenues consist of advertising time or space, reflecting the fact that it was set up 15 years ago by two New York advertising executives. But

the idea is an intriguing one; and with the advent of the Internet, it seems likely to find imitators.

In the end, though, there is no substitute for analysis. Not all organisations are affected by recession in the same way. The effect on demand will vary, and with

it the necessity to reduce excess capacity.

But there are also the kind of overheads which can only be controlled in a recession. That is, it takes a downturn to make them politically acceptable within the organisation.

One more example from Mr Pettifer. The natural tendency in cost-cutting, he says, is to look at the operational side. But head office needs also to look at itself.

"There are still some huge head offices around the globe," he says. "If you pin companies down as to why they need 3,000 people, some of them are not very clear on the answer."

This brings us to the final point: the need for fairness. If a company slashes numbers in business A because of losses in business B, while leaving business B intact, the morale in A will slump accordingly.

And if you stop providing free coffee to the rank and file while maintaining expensive lunches for the executive suite, people will put two and two together. Recession is a painful business for everyone. The more the pain is seen to be shared, the less damaging it will prove.

REFINANCING by Emilio Terazono

Healthier balance sheets lessen the demand

While lower interest rates offer opportunities to reduce the cost of debt, companies are in fact better prepared for a downturn this time round

Restructuring corporate liabilities has become an increasing concern for companies as the economic climate in Europe has become more difficult.

Manufacturers, especially small and medium sized businesses, have been feeling the effects of the economic cycle, with their problems exacerbated by the strong pound.

Financing for some of the larger companies has also been difficult due to restricted access to capital markets in the latter half of last year, a result of the emerging markets crisis. Spreads on bonds widened considerably, making sales of paper into the secondary market very difficult.

But, while falling interest rates offer companies opportunities to refinance their

balance sheets at lower rates and also allow weaker companies a better chance of new funding, bankers say that demand for refinancing and new funding is lower compared to previous economic cycles.

One reason is that interest rates have fallen faster than anybody had initially expected, and companies are waiting for a further decline before entering negotiations with their bankers.

"A lot of customers expect interest rates to go down further and are holding off for at least another few months," says Mike Stevens of Natwest Bank's sales and development division.

The main reason, however, seems to be that companies are better prepared for the downturn compared to previous economic slow-

downs in the early 1990s and 1980s.

Businesses are more aware of cost and cash flow management, while the level of gearing has also been significantly lower due to an increasing cautiousness over taking on liabilities which usually have to be met from trading profits.

Richard Kersley, economist at Credit Suisse First Boston, says that, overall, balance sheets of UK companies seem much healthier than in previous cycles. In the early 1990s, a third of profits were consumed by interest rate charges.

This has now fallen to about 20 to 25 per cent. "It isn't the level of distress seen in the early 1990s," says Mr Kersley.

After a deluge of criticism over the behaviour in the

early 1990s, banks also claim to have learned their lesson. They note that unless customers they lend to prosper, neither will they, and are now stressing their willingness to work with small business customers in restructuring and managing their liabilities. "The key to our approach is consistency of support to our customers throughout the economic cycle," says Mr Stevens at Natwest.

Businesses now seem to have a better understanding of finances than in the early 1990s. Better credit analysis, thanks to increased sophistication in credit assessment systems, has also allowed banks to make credit judgments on behalf of customers.

Financial institutions, meanwhile, are eager to stress the importance of long term relationships with customers and have moved towards identifying problems at an early stage and evaluating options for balance sheet restructuring.

In order to lower costs and increase stability in cash flow, companies have one or a combination of the following refinancing options:

- reducing monthly repayments by lengthening the duration of a loan;
- introduction of debt finance such as factoring or invoice discounting;

'Businesses are more aware of cost and cash flow management'

● switching from a fixed rate loan to a variable rate loan, where the cost is linked to the prevailing base rate or Libor (London inter-bank offered rate). This may be appropriate if a fixed rate loan was taken out some years ago when rates were higher. However, companies need to note that there are costs associated with closing out a loan early, which will need to be weighed against the benefits of the new loan balance sheet.

● locking in lower interest rates when there is no guarantee that prevailing rates will remain low in the medium term, by switching into a fixed rate loan to take advantage of the decline in interest rates.

- debt for equity swaps;
- capital repayment holidays, where the bank agrees

to suspend, for a given period, repayments on the capital sum outstanding, with interest only being covered in the meantime.

Of all these, factoring and invoice discounting have become increasingly important to small businesses as a source of maintaining cash flow.

Factors and discounters purchase a debt from a business, usually for immediate cash, and will become responsible for the collection

of the debt repayments. In the UK, most factoring is carried out by subsidiaries of leading banks.

Factoring finance is based on a company's invoices, and a factor will typically provide, within 24 hours, 80 to 95 per cent of the value of the invoices to customers, less a service charge, usually 1 per cent to 3 per cent.

Last year, funds provided by factors and discounters increased by 12 per cent to £56.7bn, a slight slowing from an 18 per cent increase in 1997. Domestic factoring rose 7 per cent, invoice discounting gained 14 per cent, while international factoring and discounting rose 16 per cent.

Although a slowdown in investment could affect growth of the factoring market, factoring and invoice discounting are expected to continue to increase their attractiveness as a method of debt collection, and it is reckoned that the market will expand to £110.8bn by 2002.

MARKETING by Richard Tomkins

If the return is right, keep spending

A cutback in advertising may be the right strategy in a downturn. But studies show that the better performing companies in the long term sustain their expenditure

When times are hard, the advertising budget is an obvious target for cuts. The sums are large, the savings are quick – and when good times return, the tap can be quickly turned on again before any serious damage is done.

But there is an opposing argument, too. Advertising is cheaper in a recession, so it can be a good time to invest in brand-building. And if other companies cut their advertising budgets, your likely increase in market share will leave you much better positioned for recovery.

Numerous studies by the marketing services industry have found, perhaps predictably, that the best-performing companies in the long term are those that sustain their advertising during a downturn.

But the notion was also supported by an independent study recently when PIMS Europe, the international corporate benchmarking consultancy, released the results of its research into which business strategies succeeded in a recession.

PIMS took its database of 3,500 businesses world-wide and looked at 1,000 companies in markets that had experienced recessions followed by recoveries.

The companies that did best in terms of profitability, PIMS found, were those that adopted "bold" strategies during a recession, investing in marketing and innovation even though times were hard.

Companies that increased their spending on marketing

during a recession were slightly less profitable while the recession lasted, PIMS found. But once it finished, their profits increased much faster than those of companies that kept spending steady, while profits of companies that cut their spending in the recession actually fell once recovery began.

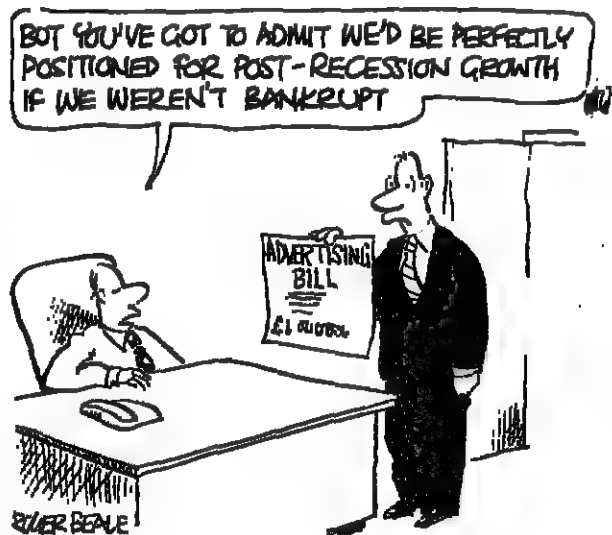
The trouble with studies such as these is that, for the most part, the conclusions seem obvious. Naturally, every company would like to maintain its advertising during a recession; but in the real world, that option is not always open.

"There are some companies out there that can afford to take a long-term strategic view, and they, by and large, will be the number one and number two players in the market," says David Forster, a media analyst in Salomon Smith Barney's London offices.

"But there will always be weaker companies for whom it isn't a choice. In a recession, some companies go bust. There are some companies that will be looking everywhere to save money aggressively, and costs will get cut."

As Mr Forster points out, an important factor in all of this is how bad people expect the recession to be. If you think you are going into a relatively shallow downturn, you may feel you can afford to keep the advertising at a higher level than if you are in a deep recession, laying off staff, closing offices and cutting dividend payments.

This is one reason why,



right now, the advertising industry seems fairly sanguine about the immediate outlook. Based on expectations that any economic downturn will be short and relatively light, the industry is expecting global advertising revenues to grow almost as rapidly this year as they did in 1998.

Even so, different companies may need to adopt different strategies. "I think the way most managers look at this is as a form of business investment, and as with any

'The advertising industry seems sanguine about the immediate outlook'

form of investment, you have to consider what return you are going to get, both in the short term and in the long term," Mr Forster says. "For example, if you're a do-it-yourself retailer and people aren't buying homes, which is one of the major stimuli to people walking in to buy pots of paint and wallpaper, then the return on marketing aggressively to these people is much diminished because there are just fewer of them."

Tony Hillier, a director of PIMS, agrees. "The best way

to ensure that you adopt the right strategies in recession for your business is to determine which strategies have proved successful for businesses analogous to your own," he says.

Martin Sorrell, chief executive of WPP, the world's second biggest advertising group, also advocates reappraisal, but in a slightly different sense. He says companies should not maintain their spending indiscriminately, but take a fresh look at which form of marketing delivers the best value for money.

For example, Mr Sorrell says, the cost of network television advertising has been rising alarmingly, because at a time when media audiences are fragmenting, other media cannot deliver the same size of audience for the same price.

Mr Sorrell says television's low "cost per thousand" may appear good value, but can prove to be the opposite if your message is delivered to the wrong people or produces low conversion.

"The real answer is effective cost per thousand – and that will come from new media development," Mr Sorrell says. Meanwhile, many companies are allocating a higher proportion of their marketing budget to other media – public relations, sales promotion, identity design and packaging – and using them in a more selective way.

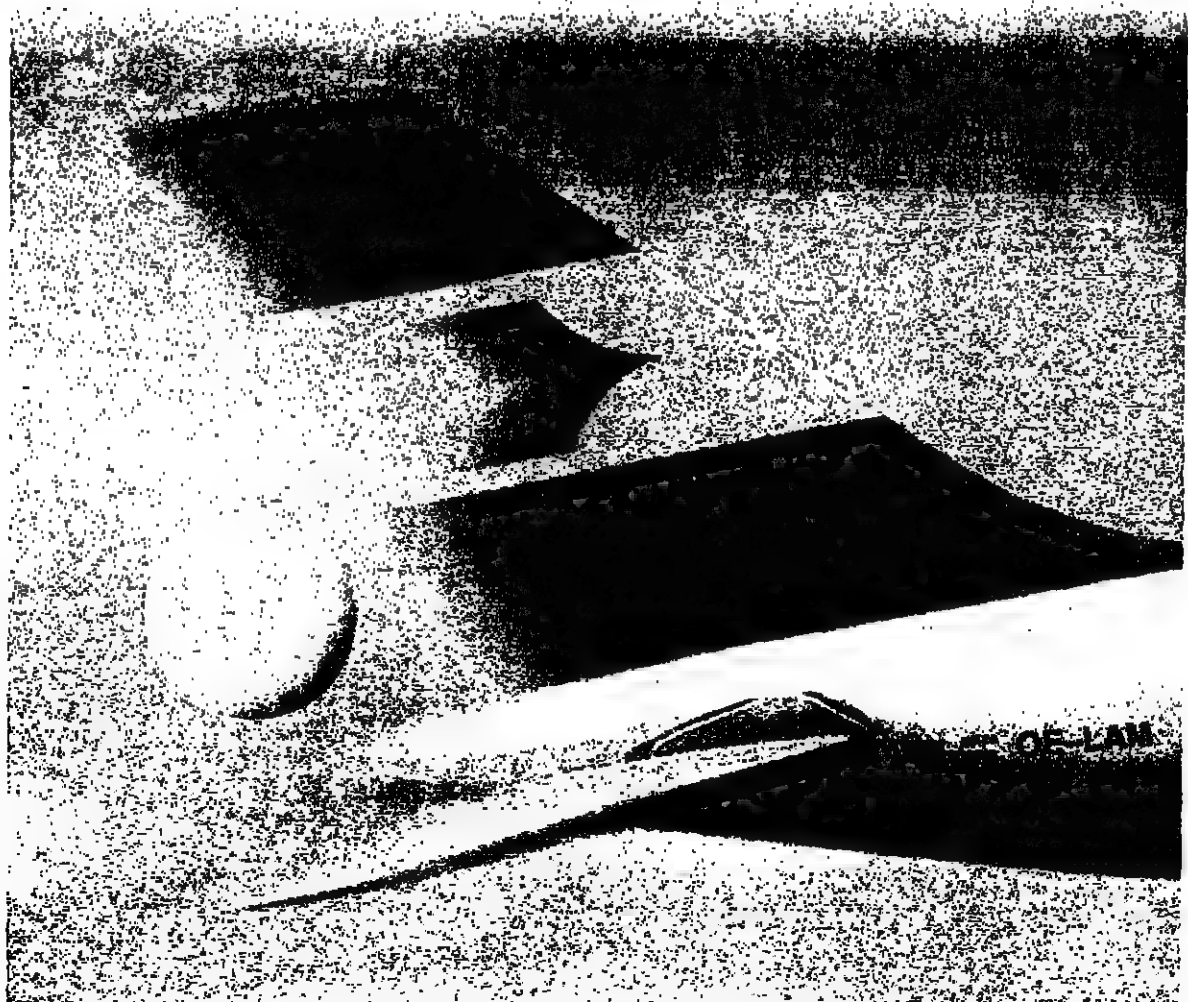
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Chancellor Gordon Brown: no avoidance

TAX by Jonathan Schwarz

Proposal a cause for concern

A move to counter avoidance announced last week's Budget could undermine long-standing arrangements in the UK

Many directors will have been dismayed by both the content and the timing of the Budget announcement of changes "to counter avoidance in the area of personal service provision". The Inland Revenue press release states that there has "for some time been general concern about the hiring of individuals through their own service company so they can exploit the fiscal advantages offered by a corporate structure".

The aim of the Inland Revenue is to ensure that people in "disguised employment" pay the same tax and National Insurance as someone employed directly. The long-standing distinction between employment and independent personal service income is accentuated by the tax system, which imposes entirely different tax regimes on each. Additional differences arise out of diverging National Insurance regimes.

The range of possible tax outcomes is increased when services are provided by partnerships or companies. Thus, a wide range of options is available to those who provide their services to structure their arrangements in such a way as to be advantageous to them.

'Any director who has gone down this road is now labelled as a tax avoider'

whether for tax or other reasons.

In many cases, simple employment may be the least attractive tax-wise. Payroll taxes in the form of National Insurance contributions and PAYE mean that employees do not even get to see that part of their income that is paid over to the government.

The rules relating to the deduction of employment-related expenses are extremely narrow and rigid compared to those providing services independently. The changes are even more dramatic when the service activity is conducted through a company.

For example, a personal service company would only pay tax at 21 per cent on earnings of up to £350,000. An employed individual earning the same amount would pay 40 per cent on most of that amount. Employers would bear National Insurance contributions at 10 per cent, making employment an extremely expensive option.

As a result, many directors and employees seek to establish themselves as self-employed and to form companies in order to provide their services. Others do so because of the real differences in legal rights and obligations between the parties. Such arrangements have been used for very many years on an entirely valid and proper basis.

Any director or executive who has gone down this road is now labelled as a tax avoider and by implication not paying a fair share of the tax burden.

Despite this pejorative

spin, the reality is quite different. Directors and executives have simply exercised choices that the tax system offers them.

In a recent leading case on tax avoidance (*IRC v Wulfeberg*), the House of Lords accepted the Inland Revenue's definition of tax avoidance as where a taxpayer reduces his liability to tax without incurring the economic consequences that parliament intended to be suffered by any taxpayer qualifying for such a reduction in his tax liability.

It also accepted the Inland Revenue's argument that the hallmark of tax mitigation, on the other hand, was that a taxpayer takes advantage of a fiscally attractive option afforded to him by the tax legislation and genuinely suffers the economic consequences that parliament intended to be suffered by those taking advantage of the option.

The House of Lords rejected as absurd the description of tax avoidance as the acceptance of an offer of freedom from tax which parliament has deliberately made.

In its press release, the Inland Revenue emphasises that those structuring their arrangements in this way do indeed suffer the economic consequences of the choices that they make. This may be in terms of loss of protection under employment law, or loss of entitlement to sick pay or maternity leave. Those adopting these approaches may sacrifice entitlement to notice or redundancy pay, or claims to unfair dismissal.

Some Budget changes offer further tax incentives for personal services to be delivered through companies. The new 10 per cent starting rate of corporation tax on profits up to £10,000 with marginal relief on profits up to £50,000 will tempt many to explore incorporation.

The press release indicates that the proposed changes are only aimed at engagements with "essential characteristics of employment". This, the Inland Revenue says, should only affect those cases where these characteristics are disguised through the use of an intermediary such as a service company or partnership. It does not intend to redefine the boundary between employment and self-employment.

Many will wonder why the Inland Revenue feels the need to legislate against disguised arrangements. The law has historically protected it against sham transactions. Thus, where a taxpayer creates a facade of reality, quite different from the disguised transaction, the proper consideration of the reality of the situation will be given.

The government proposes to consult interested parties on this and has expressed concern in "minimising any impact of these changes on ordinary business not involved in avoidance". Perhaps during the consultation process, the real path to ensuring that taxpayers pay their fair share will emerge.

A fair tax system should tax those working in similar circumstances in a similar way. Jonathan Schwarz is a tax barrister at 8 Temple Gardens Tax Chambers, London

LATE PAYMENTS by Emiko Terazono

Reluctant to take advantage of the law

Small companies may now have the option to charge interest on debts, but few are likely to do so

Prompt payment from large customers has always been a problem for small suppliers, lacking the clout to collect debts without facing the threat of a breakdown in their business relationships.

UK companies have traditionally been among the worst when it came to debt payments. Compared to Scandinavia and Germany, there has been no legislation on collecting debts, and the country's businesses have had one of the worst payment habits in Europe. Natwest Bank estimates that at any one time £20bn worth of trade debts are owed to small and medium companies, costing them more than £3m per day in additional interest burden.

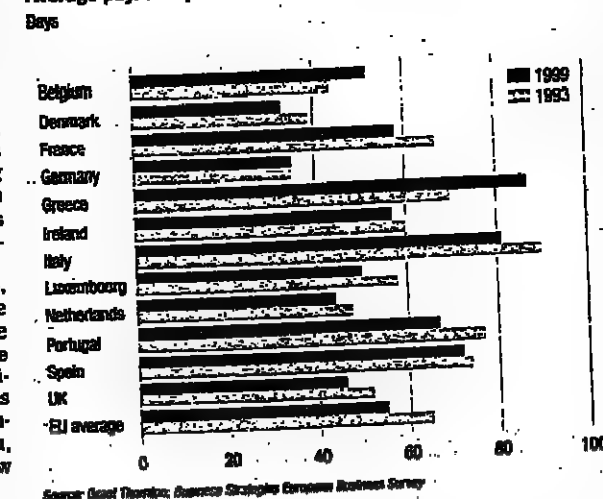
In an effort to tackle this problem, the government last November introduced a law to protect businesses threatened by late payment. The Late Payment of Commercial Debts Act gives companies the right to claim interest on late payments, and aims to improve the business culture in the UK. It will be phased in over a four year period, but doubts remain over the effectiveness of the new legislation.

"The government has at least acknowledged that it is a problem, which is positive," says James McFadden, managing director of a MHR, a small human resources company. Although his company has yet to face debt collecting problems, most of his friends running small businesses are sceptical about the effectiveness of the new law.

For most small companies, turning to the new law is the last resort, especially if the large customer is someone they want to build a business relationship with. "It's highly unlikely that a company is going to use you, once you turn to the new law," he says.

The legislation will give businesses the right to charge interest - at base rate plus 8 per cent - if invoices sent to business customers remain unpaid for longer than 30 calendar days. Small business suppliers with outstanding debts from large businesses of more than 50 employees and the public sector will be the first to be able to use the law. Until October 2000, it is only large businesses which will be liable to pay the statutory interest, but from November 2000, it will apply to all.

Average payment periods



Source: Grant Thornton; European Strategic Business Review Survey

While there may be a possibility for a strong customer to try and force a small business to exclude the terms of the new legislation out of the contract, the contract could be set aside by the courts. But unless the sum of debt is substantial or the delay in payment particularly long, a

company is unlikely to turn to legislation just for the interest. And although awareness of the new law seems to be relatively high only a few companies were willing to do anything about it. "So far, there has been no effect whatsoever. It's certainly not high on the agenda for most businesses," says Andrew Godfrey, head of growth and development

services at accountants Grant Thornton International.

The case of Rentokil Initial seemed to highlight the attitudes of companies towards the new act. Small companies complained that they had received letters from the cleaning group informing them that it would pay interest at only 1 per cent above the base rate for unpaid bills after 65 days. Rentokil said it would not do business with companies which did not accept the terms, but after protests from small business groups and criticism from the media, it withdrew its initial conditions.

Mr McFadden of MHR says that in order to avoid late payment by clients, maintaining good relationships with companies is the absolute key. He also finds that, compared to medium-sized businesses, the relatively larger companies realise the late payment problem for small businesses.

Many banks are advocating the use of "just in time" payments using Direct Credit, a widely used electronic funds transfer service which allows businesses to make payments directly into

their suppliers' accounts. Banks are also advising companies to use the legislation as an opportunity to review existing terms and conditions. Mr McFadden says that most small suppliers do not have official contracts with their customers, and he is now using the introduction of the law to bring in fixed contracts with a terms of payment agreement.

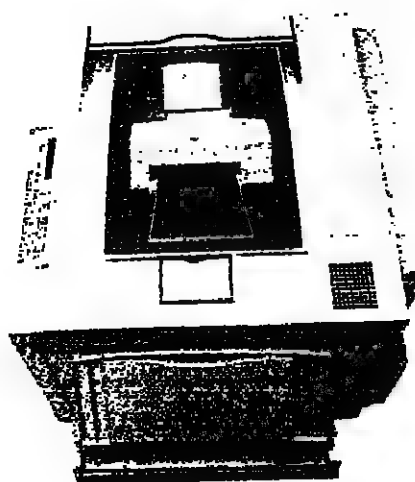
In Europe, there are considerable variations in attitudes to late payments, according to Grant Thornton. Compared to the UK's average of 46 days, the average number of days it takes an EU company to pay an invoice is 55. Finnish and Norwegians come out on the top with less than 30, with southern European countries at the bottom of the list.

Mr Godfrey says it has more to do with culture than legislation. "In Scandinavia, it simply is not acceptable to pay late. People just don't do it," he says.

Companies in Spain, Portugal and Italy take an average of 67 days to pay their invoices, but in many cases, 120 days is regarded as normal business procedure.

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VEHICLE FLEET MANAGEMENT by John Griffiths

Complex drive into Europe

The specialist expects to come into its own as companies increasingly operate across national boundaries

The company car, once a mainly British phenomenon born as a means of circumventing a government pay freeze in the 1970s, is becoming endemic across Europe.

There is a long way to go before most EU countries catch up with the UK, where cars acquired or leased with business cash account for almost 70 per cent of total new car sales. But the trend has been clear for a decade as corporate need for mobility has risen, public transport declined and – not least – the “perk” car has become ever more useful as a tool for retaining the loyalty of valued managers and executives.

Increasingly during the 1990s, a new and important dimension has been arising. A growing number of companies are operating across Europe's national boundaries. Partly, this is a result of the emergence of the EU single market and the euro, and partly because of the global wave of mergers and acquisitions which is continuing to consolidate a broad swathe of industry and commerce.

A knock-on effect for such companies is that fleet ownership or management is no longer a question of dealing with one new and used car market, and one framework of taxation and other relevant legislation.

Despite increasing EU integration, within the several dozen states of western and central Europe such legislation varies widely. So do car prices – a function of tax regimes which can impose a total tax burden of more than 300 per cent in Denmark on a new car purchase, and as little as 15 per cent in the UK.

The introduction of the euro is already making prices more transparent and, industry analysts insist, will reduce the up to 40 per cent price disparities still evident today. But for as long as national tax regimes vary there are still likely to be variations at the pre-tax level and incentives for cross-border trade in cars.



Fleet car operators expect the market to increase throughout Europe in the wake of a single currency

Reuters

Fleet disposal also becomes a matter of great complexity.

This is not a problem in the UK which, thanks to a tax regime where dealers are charged VAT only on the profit margin of each car, has long had a sophisticated infrastructure of auction houses and used car retail outlets.

But the widespread Continental European practice of charging VAT on the full used car sales price – only now being remodelled by EU rules along UK lines – has prevented such infrastructure developing in much of the region. Disposal by private or commission-only commercial sales thus can be the stuff of which fleet managers' nightmares are made.

Not least, dealing with the company car in terms of assessing its benefit to the driver for income tax purposes is itself more than a little taxing. The UK taxes company motorists on their business, rather than private, mileage. Germany cal-

culates it as 1 per cent of the car's purchase price, plus a monetary amount arrived at by multiplying the number of kilometres between home and workplace by 180 days of work, and then by DM1.04. Italy, even more imaginatively, divides so-called non-working days by 365 and multiplies that by the total cost of the car.

Not surprisingly, given a list of such complexity, specialist fleet management, contract hire and leasing companies have been gearing themselves up to offer their services on a pan-European basis – touting themselves as “one-stop shops” for companies which should be concentrating on running core businesses, not their fleets.

According to Peter Cooke, director of the Centre for Automotive Management at Henley Management College, the number of companies operating truly pan-European fleets – in use across five countries or more – is still relatively low at around 500, although growth will be

substantial as the effects of consolidation make themselves more strongly felt.

Mr Cooke stresses, too, the complexities facing a fleet operator seeking to “go it alone”.

“Naturally, many organisations dream of a ‘pan-European’ fleet, supported by a single ‘pan-European’ (car) provision policy and controlled by a ‘pan-European’ fleet office” – akin to a motoring single currency.

“But the drive to such a utopian structure – with its dream of cost reductions – is strewn with pitfalls,” he says.

The cost of a central in-house fleet management office would be likely to be high. “Harmonising” the previously widely-varying fleets of each national subsidiary would be likely to generate resentment among staff whose cars faced a levelling down. The better purchase terms available on a “bulk buy” deal still might not cover the increased overhead, Mr Cooke warns.

Against this background,

it is not surprising that the specialist fleet management and leasing sector is falling over itself to capitalise on the uncertainties.

“Risks associated with the ownership of depreciating assets such as vehicles are best carried by those whose core competencies include the management of such risks,” insists Daniel Farrar, chief executive of the European arm of GE Capital, the fleets and leasing subsidiary of General Electric of the US, which handles almost 1m vehicles for clients globally.

Unileys, the computer services group with 33,000 employees spread internationally, is among companies which have found such arguments persuasive. It has signed a £10m a year deal under which GE Capital's Avis Fleet Services division is managing Unileys' 2,600-strong fleet throughout Europe. The fleet is now managed through a combination of GE-controlled local operation centres in each country, with a central management team co-ordinated through GE's Brussels headquarters.

“Personnel previously tied up on largely non-productive fleet administration have been redeployed to much more beneficial effect and we are reducing costs,” says Eric Knight, Unileys' director of outsourcing.

“Rationalising the fleet content from the average of around 30 manufacturers to about seven normally allows you to satisfy local com-

pany drivers' preferences while providing the required level of leverage,” says Mr Op de Beek. A similar process can be repeated with fuel suppliers.

Thereafter, cost controls, administrative efficiency and driver satisfaction should be regularly reviewed.

Similar advice comes from Richard Netherclift, vice-president of PHH Europe, another large management and leasing group. “There is no off-the-shelf, one-size-fits-all package,” he warns. “Treatment of the company car in each country has to be approached sensitively and with respect for local customs and opera-

FLEET PACKAGES by John Griffiths

Opportunity hinges on clear objectives

Arrangements for pan-European fleets should offer substantial savings to international companies

Leading fleet management and leasing companies expect some of their best growth opportunities to come from multinationals outsourcing the operation of their pan-European fleets. But even they accept that fleet owners need to have a clear understanding of what they are trying to achieve, and precisely what benefits are expected, in opting for a pan-European fleet policy.

The basics of the packages being developed by the specialist fleet industry are already familiar to companies with bases in the UK, where the company car market is the largest, longest-established and most sophisticated in Europe. They range from rudimentary cost controls for fleets owned by the operating company – monitoring and managing service and repair bills – to full contract hire with all risks borne by the lessor.

Duly adapted to take account of countries' differing tax and legislative regimes, they should offer substantial savings compared with fleets bought and run locally by national subsidiaries.

Pitfalls do exist however – not least upsetting long-established custom and practice at subsidiaries – and Philippe Op de Beek, managing director of fleet finance group Axus, suggests a step-by-step checklist to make the process painless.

A company should first define the objective of the exercise: whether the target is cost saving, harmonised pay and benefits, or both.

A specific team, taking into account the importance of each country, should be set up to manage the change process. Only then should potential suppliers be approached, restricted to those with their own presence in all the company's operating countries.

The chosen supplier and client company should then examine fleet competition between manufacturers and negotiate on a European level to achieve the biggest cost savings.

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The structure of the company car market in France and Germany emphasises the difficulties

tional parameters.”

The structure of the company car market in France and Germany emphasises the difficulties.

France has only 5m business car drivers and it is common for employees to provide their own cars for business use. Germany has 5m such drivers, but the “perk” cars which are such a feature of UK remuneration packages are not widespread. Cars go mainly to essential users and senior managers, not line managers. To restructure a UK subsidiary's fleet on German lines, clearly, would be to spark revolt.

Complicating matters further, unlike the UK, contract hire and leasing in Germany is largely under the control of the vehicle makers themselves, not independent specialists.

However, if any one trend is predictable, say analysts, it is that the flexibility and sophistication of UK-developed fleet and finance packages and policies, acquired over many years of sometimes swiftly-changing government attitudes to the

company car, will be increasingly exported to Continental Europe.

Such attributes are to be expected in a country where both the “essential user” and “perk” car have been an integral part of the corporate scene for two decades, and where business cars account for up to 70 per cent of all new car sales.

With taxation on the benefit of the UK company car having risen sharply in the past few years, that flexibility is being tested in a new form – the emergence of a cash alternative to the company car, with all that would seem to imply for the fleet management and leasing sector.

Six years ago, only about 6 per cent of companies offered such an alternative. But, according to the latest annual Monks Partnership study of UK companies' car policies, almost three-quarters of businesses – more than 80 per cent in the case of companies with turnovers of more than £500m – now offer allowances.

The take-up rate is also rising, particularly among directors, and in some companies have reached as high as two in three. The reasons are not hard to find: most directors' cars are perks and their mileage tends to be low, thus attracting the highest level of personal taxation.

But the specialist fleet sector remains as fast as ever. It is moving quickly to mop up for itself, through personal leasing schemes, the cash of directors and employees keen to escape the company car tax burden, but fearful of entering the car market jungle of their own after possibly years of having all buying, selling, maintenance and paperwork worries taken care of by the fleet manager.

The overall result is a continuing trend for companies away from fleet ownership. Last year, according to Monks' figures, only 31 per cent of companies bought their own cars, down from 33 per cent a year earlier. Including personal leasing, companies using contract hire jumped to 48 per cent from 37 per cent the previous year.

LAW by Nigel Page

The merger route that avoids nasty surprises

Liaising with the European Commission at the outset of a deal can enhance the chance of obtaining its approval

The boom in European mergers and acquisitions – cross-border deals topped £100bn (£145bn) in 1998, according to Acquisitions Monthly – has been good news for competition lawyers. Moreover, changes to EC merger regulation, introduced by the Council of Ministers in March last year in an attempt to streamline the merger review process, have developed a role for competition lawyers as strategic advisers.

For acquirers and joint venturers, knowing when and how to file notification of an intended consolidation is critically important. Typically, deals find their way to Brussels if they exceed certain turnover thresholds (both globally and inside the EU), and once notified to the Commission's merger task force (part of DG IV), they become subject to a tightly-controlled process.

The first stage, phase I, lasts for four weeks, during which DG IV investigates the proposed merger and its effect on the market. Until last year's amendments were introduced, failing to secure Commission approval at this stage meant that the deal proceeded to phase II, a four-month process, entailing huge amounts of disclosure, effort, time and cost.

In certain instances, this can be enough to derail an intended merger altogether – and, at best, it represents a serious drain on management resources. From March last year, however, when deals hit problems during phase I, parties have been offered the chance to commit to making divestments which dilute the concentra-

tion and smooth the way to Commission approval.

In practice, this means that phase I is automatically extended by an additional two weeks, if a divestiture commitment is tabled by the end of the third week. This allows DG IV time to seek views from the market and establish the reactions of competitors and customers to the commitment which the parties have proposed.

It can be a matter of enormous strategic importance for the party to decide whether it should give a phase I undertaking, or whether it should allow the matter to move into phase II. For example, under UK takeover law, a phase II investigation will usually mean a bid will automatically lapse.

John Davies, a competition law expert and the co-managing partner of Freshfields Deringer Brussels, explains: “Parties are confronted with a tough decision, often against the clock. Do they opt for a quick fix divestiture at phase I, even if it means selling off a potentially profitable aspect of the business? Or do they allow the matter to move into phase II, with all the delay that entails, in the hope that they will be able to negotiate the Commission into approving a less radical fix?”

This may be a tough call, but it has provided companies with a welcome escape route – since March last year, there have been 12 deals involving phase I undertakings – including Exxon-Shell, Thyssen-Krupp, BP-Amoco, Alzco Nobel-Courtauld and Xeneca-Astra. Nearly all would otherwise have gone into phase II.

and some might have then foundered.

Mr Davies, whose firm has advised on five of the 12 mergers involving phase I undertakings to date, says: “The original merger regulation only provided for undertakings on divestments to be made at the end of phase II and consequently an *ad hoc* practice had developed whereby parties could, in limited circumstances, agree to do something at the end of phase I, but there was no

‘Parties are confronted with a tough decision, often against the clock’

established, legally-enforceable procedure in place. Therefore, the parties would often be locked into a full-blown, five-month procedure with only a very limited chance to extricate themselves earlier. Nobody benefited from this.”

The £58bn BP-Amoco merger was completed against a demanding timetable and, as Juan Rodriguez, EC competition counsel at BP Amoco plc, says: “I'm a strong supporter of the recent amendments to the merger regulation law – the new process worked very effectively for us in a situation where we really didn't have too much time to spare.”

“Late on in the approval process, third party comment elevated the sensitivity surrounding a particular chemical product. This could potentially have pushed us into phase II. The phase I commitment mechanism was extremely helpful and

we worked to meet the timetable, entering into a disposal agreement before the Commission finished its phase I assessment. This resulted in the divestiture of a chemical business to Royal Parkhoo, one of Europe's largest chemicals distributors,” says Mr Rodriguez.

Where companies give a phase I undertaking, without actually disposing, the Commission requires that the identified divestiture be held apart and run separately, typically by an investment bank appointed as trustee (as in the Kimberley Clark-Scott merger).

Concerns have been raised that the effect of the amendments, and the understandable desire for certainty among businesses, puts the Commission in an unfairly strong position. To ensure that companies are not forced to divest “at any price” simply to get the deal through, they should concentrate on forward planning, says Dimitri Glotakos, a case handler with the Commission's merger task force.

“Sufficient preparation in advance of the filing may help notifying parties to formulate their tactics,” he says. “They must establish whether they will be able to provide a straightforward remedy, or whether they would prefer an in-depth phase II investigation to be carried out,” says Mr Glotakos.

BP Amoco's Mr Rodriguez supports this view. “The key to avoiding nasty surprises is to spend as much time as possible with the Commission at the informal stage, so that potential problems and, if necessary, remedial measures such as divestitures, can be identified.”

Nigel Page is a partner in White Page, a London editorial agency

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WORKING TIME REGULATIONS by Robert Taylor

Implementation fraught with difficulties

The UK government has allowed companies and workers a flexible approach, but this may be short-lived

The European Union-inspired working time regulations that were supposed to have come into force last October are among one of the most complicated pieces of employment law ever faced by UK employers. It is not only the Department of Trade and Industry which is finding it difficult to explain clearly what they involve.

Over the coming months a high level of litigation from employees can be expected and this in turn is bound to increase the need for precision by employers in drawing up agreements covering working time which can no longer be left to voluntary determination. In contrast, similar difficulties have not been experienced in other countries in the European Union where the working time directive has come into force, mainly because this is

an area where they already have national legislation laying down legally enforceable restrictions. In the UK, with some exceptions such as children and colliers, working time has not been covered by statutory requirements. For the most part, employers and their employees have been quite free to make their own voluntary arrangements.

The current legal troubles in the UK have been compounded by the way in which the working time regulations were first introduced. When they were adopted in 1993 by EU ministers in a legally-binding directive, the then UK government challenged their legitimacy before the European court by arguing that working time was not a health and safety provision under the EU treaties and

should therefore not be subject to regulation at EU level.

The UK lost that case in November 1996 and was ordered by the court to implement the directive. But in the intervening period nothing was done in the UK to prepare for the introduction of the working time regulations.

The present UK government set out its own proposals on how it intended to transpose the working time directive into domestic law in a consultation document published last April.

In this, it argued that, while the directive should be welcomed as an "important addition to health and safety protections for workers", "maximum flexibility in implementation" was needed as long as this was not done at the expense of "fair minimum standards and the proper protection of workers from risks of excess working time leading to stress, fatigue and risks to

health and safety".

It was also made clear at that time that action on working time should be seen as part of a much wider government employment strategy designed to create a more flexible labour market underpinned by minimum standards. A more "family friendly" approach to work-

do so. The case indicates that companies are going to need special sensitivity in ensuring they do not face the risk of costly and time-consuming litigation over working time when they draw up agreements.

The basic standards set out in the working time regulations are clear enough.

'A family friendly approach to working place issues was to be ensured'

place issues was to be ensured, while at the same time safeguarding a sensible balance between effective protection for employees and minimising the regulatory burdens on business.

In a recent High Court case in the UK pit deputies employed by RJB Mining won their legal right not to work more than a stipulated 48 hours a week determined over a 17-week reference period if they did not wish to

No worker - except for a number of specified excluded groups - should be compelled to work more than a maximum of 48 hours a week. All workers have a legal right to three weeks paid annual leave rising to four weeks this November subject to a 13-week qualifying period.

In addition, the regulations lay down specific requirements for night workers, who must not work

more than eight in every 24-hour period, and who must have health assessments as well as specified rest breaks.

But the generalised outline of the regulations' provisions belie the difficulties of implementing them in practice.

The UK government is keen to ensure that its interpretation of the working time directive enables companies to exercise as much flexibility as possible in its implementation without violating its intentions. The main way this has been done is to allow employers and employees to exercise opt-outs from the working hour limitations. Three methods have been laid down on how this can be achieved.

First, an individual worker can reach agreement in writing with their employer to work more than the 48 hours a week stipulated.

Second, a workforce agreement can be negotiated between an employer and non-unionised employees to

allow for a wider opt-out from the working hours provision.

Third, a collective agreement can be negotiated between an employer and trade unions which does the same.

Theoretically, such a provision should go a long way to reassure employers and workers that they will not be compelled to limit working time if they are genuinely willing to agree on an opt-out. But it is not going to enable companies to avoid maintaining fuller records on time-keeping. Moreover, a worker will be able to give notice of up to three months that they are withdrawing from such an agreement.

A recent publication from Industrial Relations Services and Warwick University Industrial Relations Research Unit argues that the working time regulations should provide an opportunity for companies to manage their working time more efficiently, encourage moves

to flexible rostering and annual-hours arrangements and ensure a much more productive use of labour. The systematic use of opt-out, for example, has generally been regarded as an inefficient way of work organisation. Its eventual eradication seems more likely under the current regulations.

Moreover, the present uncertainties and confusion may not last for long. The European Commission is keen to tighten up the working time regulations, bringing many excluded groups within the scope of its provisions and making it more difficult for any large-scale opt-out. The UK's minimalist approach is likely therefore to be only a temporary sign towards a much more regulated system in line with common practice in the rest of western Europe.

*The New Law on Working Time, from IRLS, 19-20 Lightbury Place, London N5 2P, £100.

BOARDROOM PAY by Richard Donkin

Incentive for UK to follow suit

Emulating the US trend, an increasing proportion of directors' remuneration packages is being linked to company performance

The question of whether the directors of public companies are fairly rewarded for their efforts continues to exercise the minds of investors and pay specialists, particularly in the wake of what seem like increasingly hefty pay deals for US executives recruited to run UK companies.

The £10m incentive-loaded package put together for Iure Michael O'Neill from Bank of America to Barclays as its new chief executive is the latest deal in what seems to be developing as a trend. But Mr O'Neill's package also illustrates the difficulties for companies attempting to match pay conditions in different jurisdictions. Increasing proportions of reward packages in the US are being linked to company performance and this development is becoming more prominent in the UK.

The move towards incentive pay in the UK is illustrated in statistics provided by Ray Management Consultants. Base pay would have comprised almost two-thirds of a typical reward package of a main board director in a large publicly-quoted company in 1978. Some 10 per cent of the package would be an annual bonus and about a quarter would be made up of other benefits.

By 1998, the base pay ele-

ment had dropped to just over half - 53 per cent - of the total package, with annual bonus contributing 10 per cent, other benefits adding 16 per cent and long term incentive pay - non-existent 20 years earlier - making up another 16 per cent.

Although UK executive pay in big companies is edging in the direction of US models, national differences in the way that pay is regu-

'American executives expect their pay to be packed with incentives'

lated by investor bodies and tax authorities would make it difficult for UK companies to match their incentives with those in the US.

A complication for share incentives in the UK is an Association of British Insurers' guideline that executive share option packages should not be worth more than four times base salary. It also specifies a maximum dilution limit of 10 per cent of issued capital for all share option schemes. This means companies must often look

to other incentive plans to make a package attractive enough for an American.

In contrast, in the US, although any equity dilution for long-term incentive and share option schemes needs the approval of shareholders, there are no maximum dilution limits: neither are there any rules on maximum award levels of share options. Instead, companies are likely to favour incentive pay because base pay that tops \$1m is not tax deductible for a company as a corporate expense unless it is performance-related.

In spite of these differences, the pressures on many large UK companies to become "global" means that the recruitment searches for their top executives are often taking place on both sides of the Atlantic. American executives, however, expect their pay to be packed with incentives.

Moir Conoley, a partner and pay specialist at Price-waterhouseCoopers, points to the increasing influence of US-style rewards on executive pay in the UK. Pay comparisons are often used by UK companies when attempting to set boardroom pay rates. "There are concerns that it could lead to a ratcheting up of packages in the UK," she says. She also raises fears about



Michael O'Neill: big incentive package to join Barclays

what some see as the increasing social divisiveness of increasing executive pay, particularly when the pay of other employees may not be moving in the same direction or by anything approaching the same proportion as increases in the pay of those at the top.

Some pay consultants are doubtful that UK government proposals to put remuneration policies to the vote at annual meetings will put much of a break on pay escalation at the top of many large companies. Shareholders are only too ready to rubber stamp the pay of an individual who is hailed as something of a saviour.

A more considered assessment could be undertaken by remuneration committees, responsible for monitoring boardroom pay, but their

powers of discretion and independence remain unclear in many companies. They do not tend to appoint their advisers and, according to Ms Conoley, they do not always have the opportunity to get their hands on data that might, for example, show the relationship between top and bottom pay in a company. "Their role is to look at pay in the boardroom, not to look outside," she says.

The Cadbury committee on corporate governance established the role of remuneration committees on the basis that "executive directors should play no part in decisions on their own remuneration". But their responsibilities were one of the areas of divergence between the respective Greenbury and Hampel reports on cor-

porate governance. Greenbury recommended that the committee should determine the policy on boardroom pay whereas Hampel said the committee should make recommendations to the board rather than take decisions on the board's behalf.

Ms Conoley believes the remuneration committee should be engaging its own advisers and setting the terms of reference for the data it uses but some consultants believe such independence is unnecessary and could fracture boardroom harmony. "In the UK, a board of directors is a unitary board and the remuneration committee is a properly constituted committee of the board. I am very opposed to working for one element of the board," says Eric Duffell, a principal in the UK arm of Towers Perrin, pay consultants.

But there does appear to be consensus that the remuneration committee should have access to relevant pay data. There may also be an argument that the human resource director should have some greater involvement in executive pay decisions. Duncan Brown, also a principal at Towers Perrin, says many HR directors are not involved in executive pay issues. In practice, he says, it tends to be the company secretary or the finance director who controls the use of pay information for boardroom positions.

He remains sceptical, however, over the idea of the remuneration committee acting as a brake on senior pay awards. "The one thing I have never heard a remuneration committee ask is how much is enough," he says.

PEOPLE by Richard Donkin

Outsourcing puts brakes on redundancy

An increasing variety of staffing options lessens the need for compulsory cuts

It would be far too optimistic to suggest that the days of indiscriminate redundancies are a thing of the past. Jobs are still being shed in thousands, often as a result of a merger between two mature businesses.

However, changes in staffing arrangements have led to new ways of tackling the fluctuating demands for labour, creating more flexibility for human resource directors when considering staffing options.

The increase in outsourcing certain support activities led many companies in the past 10 or 15 years to live off the more peripheral of their staffing responsibilities to outside contractors. Cleaning, catering, security and maintenance are often carried out by outsourcing operators today, relieving companies of the worry about staffing implications.

Other areas which experience sharp changes in demand for staff have led to the increasing use of agencies. In IT departments, for example, many companies have brought in extra agency staff to ensure their computer systems will operate smoothly beyond 2000.

The use of part-time staff has also grown. Even managerial cover is being hired out to short-term or interim executives, often used to run special projects or to act as a stop-gap between permanent appointments when a key executive leaves unexpectedly.

This increasing variety of staffing options is creating greater potential for HR specialists to buffer their companies against the need for compulsory redundancies. "You don't see so much of the large scale redundancies that were experienced in the 1980s and early 1990s, simply because people have recognised the extensive re-engineering approaches fashionable at the time have had so many negative effects," says Clive Morton, human resource director at Anglian Water.

More companies are trying to achieve the numbers through natural wastage and compulsory redundancy is seen as a last resort, much more so than in the past," says Angela Baron, policy adviser on employment at the Institute of Personnel and Development.

Companies learned in the last recession, she says, about the damaging consequences to morale and performance among those remaining after a redundancy programme. Voluntary redundancy can also have unforeseen consequences. "Often the people who think they are more likely to be able to get a new job are the ones who volunteer and some companies get their fingers burnt when people they want to keep say they want to leave," says Ms Baron.

When choosing people for redundancy the old principle of last in, first out has been almost universally abandoned in favour of using a range of criteria, such as attendance records, skills, training needs and

perceived future potential. Anecdotal evidence suggests also, says Ms Baron, that companies will use covert ways to get rid of people, such as suggesting to an individual that he is looking for another job or telling someone they are no future in the company.

But one of the biggest developments in job shedding has been the use of replacement specialists. Originally used in the US as a way of easing the exit of executives while at the same time salvaging the conscience of the board, outplacement practice has become increasingly sophisticated, moving into areas such as career development.

"The more forward thinking companies are taking a good look at the sort of skills they are going to need for the future and trying to sort people on that basis," says Frances Cook, managing director of Sanders & Sidney, the outplacement company.

'The old principle of last in, first out has been almost universally abandoned'

But many companies, she says, are still persuading people to take early retirement. "That's sad for many reasons because the culture of many organisations is embedded in the longer serving people," she says.

On the other hand, companies are improving the way they plan for job shedding. "It is not unusual, these days, for some people to be told up to a year in advance that their job may be going," she says. "This offers scope for redeployment of some and gives time for others to find alternative work."

Outplacement specialists, she says, are not involved in the selection of people for redundancy but they do get involved in advising managers and advising employees whether, for example, a proposed redeployment is the best career step they could take.

"When you look at the downsizing that went on about 10 years ago some people were just in the wrong place at the wrong time. It has meant there is less of a stigma to losing your job today," says Jo Bond, managing director of Wright Management Consultants in the UK. "But the whole scene has changed. We are seeing a growing use for our services in mergers and acquisitions," she says.

"Part of our job is to help people in companies face the reality of changing careers, equipping them with career resilience, helping them deal with redeployment and ensuring they keep their CVs up to date. No-one can afford to be complacent about their career any more."

WOMEN ON BOARD by Richard Donkin

Pay is catching up, but numbers are not

Identifying the reasons why so few women have made it to the boardroom remains as elusive as ever

Strong signs that women are breaking through pay and promotion barriers in management emerged in a recent report promising new hope for those whose ambition is to reach the pinnacle of a management career. But making that final leap into the boardroom is proving a far more difficult task.

In spite of the rhetoric of equality, women remain woefully under-represented at the top of the corporate ladder where men continue to dominate. The picture is the same in the US as it is in the UK - a few women are making it to the top, but not in any great numbers. The question some are beginning to ask today is not so much when will the real breakthrough happen, but will it happen at all.

On paper, at least, the evidence suggests that the talent pool of women may be reaching a critical mass. US education statistics show that women now slightly outnumber men in the possession of college degrees. The question remains, however, will the new generation prove equally susceptible to mid-career fall out among women who either break from their careers to have families or simply grow disillusioned with the politics of traditional management?

A report published jointly by the Institute of Management and Remuneration Economics, a pay consultancy, found that women now occupy almost a fifth of UK management posts compared to 3 per cent of man-

agement jobs in 1973 and that their pay in the middle tiers of management at least, is catching up with that of men.

On the other hand, the study exposed a continuing gender gap in the boardroom, showing that women occupy few executive roles. The extent to which the progress of women into the boardroom has been much more of a trickle than a flow was revealed in comparisons made by Ashridge Management College.

The Ashridge research found that, in the top 200 UK public companies in terms of revenues, women could be found on the boards of 84 companies in 1997 compared with 49 companies in 1993.

Women held less than 5 per cent of the 2,000 directorships and a big majority of these posts were non-executive. In fact, the Ashridge research showed that the ratio of women in non-executive posts to those in executive posts had declined over the four years. The number of women executive directors had risen from 11 to 18.

Such small executive representation suggests that women continue to be marginalised in the very top jobs. When June de Moller was made managing director of Carlton Communications in 1993, she was, significantly, not named chief executive, leaving little doubt of Michael Green's seniority as chairman. The FTSE 100 had to wait until 1996 before Marjorie Scardino became its first female chief executive



June de Moller: a former power at Carlton Communications

when she took over at Fearson.

Ms Scardino's success, repositioning Pearson as a publishing and media conglomerate, has put her at the top of most headhunting lists in the UK for clients seeking non-executives. But she calls a "generation problem". As a younger crop of men take more senior roles, she says, there will be a growing acceptance of women at senior levels.

But Susan Bloch, head of the executive coaching prac-

tice at Hay Management Consultants, believes it is unrealistic to expect any great change in the next two or three years. "There are still some prejudices there. A lot of women are setting up businesses on their own. They tend to be quite entrepreneurial but some are lacking in confidence," she says.

The observation is supported by US statistics gathered by Catalyst, a research company, and published in Fortune Magazine in October. They showed that women constituted just 11 per cent of Fortune 500 managers and 11 per cent of corporate directors. But the findings also pointed to an increasing number of US women leaving high ranking corporate positions to strike out on their own.

"I find there are two groups of women today. One group is highly ambitious and competitive, often comprising women in their 20s, and another group seems happy to settle for second best," says Ms Bloch.

"I think there is a need to build confidence in women and they need to build networks. Often I'm asked where they can network with other women but they need to be networking with other men."

The harshness of boardroom power games was experienced by Barbara Moorehouse, former finance director of Morgan Sindell, the quoted UK construction group, who lost her job when the company decided to

bring back her predecessor into his former role. "My job was reorganised out," she says. Although her position in the construction industry was unusual she says most of the men below her were easy to deal with. "Equally, I found a number who found capable, intelligent career women very frightening and that happens in all industries. Some senior men react to female colleagues in the same way that some people react to cats."

Ms Moorehouse now works as an interim executive, but does not rule out a permanent appointment if the right job comes along. "I did find that the workplace can be unsupportive of a women's lifestyle and women tend to be far less interested in the game playing and politics."

Yve Newbold, a partner at Helderick and Struggles, says she sees little sign of any radical changes in boardroom composition. "Over the last three or four years we have seen almost zero change. Yes, there are more women non-executives in the FTSE 100, but there are few executive directors and I don't think any of us understand what's happening."

"I suspect that among board chairmen, people are not yet sure or convinced that women add value. We are going to need a lot more Scardinos who have stood in the muck and bullets of a chief executive's position. It's pathetic that there is only one."



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Libya says L

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Monitors to quit Kosovo

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China fires 'incomparable' missile

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Balkanists near the bottom line

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